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SENATE

STANDING COMMITTEE ON FINANCE AND PUBLIC
ADMINISTRATION

ESTIMATES

(Budget Estimates)

WEDNESDAY, 28 MAY 2008

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**SENATE STANDING COMMITTEE ON
FINANCE AND PUBLIC ADMINISTRATION**

Wednesday, 28 May 2008

Members: Senator Polley (*Chair*), Senator Fifield (*Deputy Chair*), Senators Carol Brown, Jacinta Collins, Fierravanti-Wells, Moore, Murray and Watson

Participating members: Senators Abetz, Adams, Barnett, Bartlett, Bernardi, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Bushby, George Campbell, Chapman, Colbeck, Coonan, Cormann, Crossin, Eggleston, Ellison, Fielding, Fisher, Forshaw, Hefferman, Hogg, Humphries, Hurley, Hutchins, Johnston, Joyce, Kemp, Kirk, Lightfoot, Lundy, Ian Macdonald, Sandy Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Nash, Nettle, O'Brien, Parry, Patterson, Payne, Ronaldson, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Webber and Wortley

Senators in attendance: Senators Abetz, Mark Bishop, Brandis, Carol Brown, Campbell, Colbeck, Jacinta Collins, Cormann, Fielding, Fierravanti-Wells, Fifield, Forshaw, Kemp, Minchin, Moore, Murray, Patterson, Polley, Ronaldson and Watson

Committee met at 9.02 am

PRIME MINISTER AND CABINET PORTFOLIO

Consideration resumed from 27 May 2008

In Attendance

Senator Faulkner, Special Minister of State and Cabinet Secretary

Department of the Prime Minister and Cabinet

Executive

Mr Paul Tilley, Acting Deputy Secretary

Mr Mike Mrdak, Deputy Secretary

Mr Duncan Lewis, Deputy Secretary

Ms Serena Wilson, Acting Deputy Secretary

Economic and Industry Policy

Output Group 1

Dr Rhondda Dickson, First Assistant Secretary, Industry, Infrastructure and Environment Division

Social Policy

Output Group 2

Ms Yael Cass, Assistant Secretary, Health and Ageing Branch, Social Policy Division

Ms Serena Wilson, Acting Deputy Secretary

Ms Michelle Patterson, Acting First Assistant Secretary, Social Policy Division

Mr Dominic English, Assistant Secretary, Employment, Education and Skills Branch

Mr Shane Hoffman, Assistant Secretary, Indigenous Policy Branch

International and National Security Policy**Output Group 3**

Mr Hugh Borrowman, First Assistant Secretary, International Division
Mr Frank Leverett, Assistant Secretary, Ceremonial and Hospitality Branch, International Division
Mr Angus Campbell, First Assistant Secretary, Office of National Security
Mr John Geering, Assistant Secretary, Office of National Security
Mr Richard Windeyer, Assistant Secretary, Office of National Security
Mr Richard Davis, Assistant Secretary, Office of National Security
Dr Rob Floyd, Assistant Secretary, Office of National Security

Strategic Policy**Output Group 4**

Mr Mike Mrdak, Deputy Secretary

Support Services for Government Operations**Output Group 5**

Ms Barbara Belcher, First Assistant Secretary, Government Division
Mr David Macgill, Assistant Secretary, Parliamentary and Government Branch
Mr Alex Anderson, Assistant Secretary, Legal Policy Branch
Mr Peter Rush, Assistant Secretary, Awards and Culture Branch
Ms Joan Sheedy, Assistant Secretary, Privacy and FOI Policy Branch
Ms Anne Hazell, First Assistant Secretary, People, Resources and Communications Division
Dr Sue Ball, Assistant Secretary, Information Services Branch
Ms Kym Partington, CFO
Ms Trish Corbel, Official Establishments

Australian National Audit Office

Mr Ian McPhee, Auditor-General
Mr Steve Chapman, Deputy Auditor-General
Mrs Dianne Rimington, Group Executive Director, Corporate Services
Mr Peter White, Group Executive Director, Performance Audit
Mr Matt Cahill, Group Executive Director, Performance Audit
Mr Warren Cochrane, Group Executive Director, Assurance Audit
Mr Michael Watson, Group Executive Director, Assurance Audit
Ms Anya Moore, Executive Director, Corporate Management
Mr Brian Boyd, Executive Director, Performance Audit
Ms Fran Holbert, Executive Director, Performance Audit
Mr Steven Lack, Executive Director, Performance Audit

Australian Public Service Commission

Ms Lynelle Briggs, Public Service Commissioner
Ms Annwyn Godwin, Acting Deputy Public Service Commissioner
Ms Karin Fisher, Acting Merit Protection Commissioner
Mr Steve Ramsey, Acting Group Manager, Corporate
Ms Nicole Pietrucha, Group Manager, Evaluation
Ms Clare Page, Group Manager, Better Practice

Ms Jacqui Curtis, Group Manager, Programs
Mr Patrick Palmer, Group Manager, Regional Services
Ms Georgia Tarjan, Group Manager, Policy

Office of National Assessments

Mr Peter Varghese, Director-General
Mr Derryl Triffett, Assistant Director-General, Corporate and IT Services
Mr Patrick Keane, Director, Business Management
Ms Laura Rennie, Accountant, Corporate Services

Office of the Commonwealth Ombudsman

Dr Vivienne Thom, Deputy Ombudsman
Mr Ron Brent, Deputy Ombudsman
Ms Jill Jepson, Senior Assistant Ombudsman (Corporate)
Mr George Masri, Senior Assistant Ombudsman (Immigration)

Office of the Inspector-General of Intelligence and Security

Mr Ian Carnell, Inspector-General of Intelligence and Security

Office of the Privacy Commissioner

Ms Karen Curtis, Privacy Commissioner
Mr Timothy Pilgrim, Deputy Privacy Commissioner
Mr Mark Hummerston, Assistant Privacy Commissioner
Mr David Richards, Finance Manager

Office of the Official Secretary to the Governor-General

Mr Malcolm Hazell, Official Secretary
Mr Brien Hallett, Deputy Official Secretary
Mrs Sharon Prendergast, Director, Honours and Awards
Mr Stephen Murtagh, Director, Corporate Services

Australian Institute of Family Studies

Professor Alan Hayes, Director, Australian Institute of Family Studies
Ms Sue Tait, Deputy Director, Corporate and Strategy
Dr Matthew Gray, Deputy Director, Research
Ms Yvonne Paulke, General Manager, External Relations and Human Resources

CHAIR (Senator Polley)—Good morning and welcome back. I declare open this meeting of the Senate Standing Committee on Finance and Public Administration. The Senate has referred to the committee the particulars of proposed and certain expenditure for 2008-09 and the particulars of proposed and certain supplementary expenditure for 2007-08 for the parliamentary departments and the portfolios of Prime Minister and Cabinet, Finance and Deregulation, and Human Services. The committee may also examine the annual reports of the departments and agencies appearing before it.

The committee has fixed 11 July 2008 as the date for the return of answers to questions taken on notice. The committee's proceedings today will begin with the examination of the Australian National Audit Office, followed by the Finance and Deregulation portfolio and the Human Services portfolio. The Department of Climate Change will commence on Thursday. I propose to proceed by opening with general questions of the Australian National Audit Office and then calling on the outcomes and outputs in the order listed on the program.

Under standing order 26 the committee must take all evidence in public session. This includes answers to questions on notice. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee. Such action may be treated by the Senate as contempt. It is also a contempt to give false or misleading evidence to a committee.

The Senate, by resolution in 1999, endorsed the following test for relevance of questions at estimates hearings. Any questions going to the operations or financial positions of the department and agency which is seeking funds in the estimates are relevant questions for the purpose of estimates hearings. I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has the discretion to withhold details or explanations from parliament or its committees unless the parliament has expressly provided otherwise.

The Senate has resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officers to superior officers or to a minister. This resolution prohibits questions asking for opinions on matters of policy and does not preclude questions asking for explanation of policy or factual questions about when and how policies were adopted.

If a witness objects to answering a question, the witness shall state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. Any claim concerning commercial-in-confidence must be made by the minister and should be accompanied by a statement setting out the basis for the claim including what possible commercial harm may result.

[9.05 am]

Australian National Audit Office

CHAIR—I welcome Senator Faulkner and officers from the Australian National Audit Office. I also appreciate your patience with the yesterday's delay. Senator Faulkner, do you have an opening statement this morning?

Senator Faulkner—No.

Senator WATSON—Good morning. Being a small, efficient and well-run agency of the parliament and the government, when you received news of the efficiency dividend to be paid, did it dramatically affect your work in the sense of the performance audit program for the coming year? And what impact did it have on that performance program?

Mr McPhee—It has had an effect on our performance audit program. The two per cent efficiency dividend is about \$1.26 million for the Audit Office in this budget year, and we have looked hard at where we can make efficiencies, as you would expect us to do. We have been able to make some efficiencies, but the reality is that we will be reducing our performance audit program to some extent to cope with the reduction in our budget. The consequences are, of course, that we will produce fewer reports in the years ahead.

Senator WATSON—When you say, ‘To some extent,’ could you quantify that in terms of a percentage? Have you reduced it by five per cent, 10 per cent, 20 per cent?

Mr McPhee—We expect to reduce it by about five or six performance audits in a year. I have to say, though, in the interest of completeness, that it is not all down to the efficiency dividend. We have been affected by staff turnover in recent years, so we have fewer experienced staff on average than we have had in prior years. We are making sure that we continue to produce quality reports, so we are investing in quality, which takes more supervision than perhaps we have traditionally had to give. So we are being affected by a number of considerations, of which resourcing is just one.

Senator WATSON—Could the impact of the cutbacks in the longer term have a less than optimal performance in a global sense as a result of the performance enhancing work not being undertaken in relation to the five or six audits?

Mr McPhee—I have said elsewhere that I did not think the reduction was in the interests of the parliament, given the nature of our work being a stimulus for better administration. In fact, the chair of the Public Accounts and Audit Committee made the point in the parliament:

The Audit Office is the front line in ensuring government accountability and probity ...

She went on to say:

... the modest budget of the Audit Office should be seen as a cost-effective mechanism for curbing waste and excess, and identifying areas for better administration on behalf of the parliament and the Australian community.

I happen to agree with the chair of the JCPAA on this matter and I would have preferred the budget processes to be able to be more discriminating. But, in the event, it was a position of government policy that the government took to the election—we understand that—and I will be working pretty hard in the next 12 months to see whether we can get some better resource outcome in the next budget.

Senator WATSON—Being one of the smaller agencies of government, there would be a number of other agencies in a similar position. Does an additional efficiency dividend have as a severe effect on them as maybe it does on some of the larger departments such as Defence, Human Services and so on, from your experience?

Mr McPhee—I can talk about my broad experience without necessarily having an evidence based response on this one. The smaller agencies traditionally have less access to new policy opportunities than the bigger agencies. The bigger agencies with access to new policy often are able to utilise the resources gained to be able to manage ups and downs within the organisation. But, if you are a small organisation without the access to new policy, it means that the efficiency dividend is resulting in a reduction each year and it is more difficult to manage in those circumstances.

Senator WATSON—You do not spend a lot of money on promoting the image of the National Audit Office, and that came to mind when listening to ABC radio yesterday when the ALP candidate for Gippsland, when speaking of an election spending issue, said that the Auditor-General was not normally a friend of the ALP. That brings two matters to mind. Such a comment may be perhaps just a throwaway line or it may be a signal that maybe the

Australian National Audit Office should provide more money or additional resourcing to indicate to the public at large the important role that it plays in the community, if such a person can make such a statement—because you value your independence.

Mr McPhee—There are perhaps a couple of points I wish to make there. Firstly, I have adopted a policy—which Pat Barrett, my predecessor, also had—of letting our reports do the talking in terms of dealing with the press. That is, we do not do media conferences, unlike in other countries where the Auditor-General does take a higher media profile. Having seen both systems in operation here in Australia, it often is the case, if the Auditor-General takes a high media profile, that it does not take long before he or she becomes involved in the political debate. In the long term that does not lead to, I think, the best outcome. So we try to be, if anything, understated but quite clear in the messages that we are putting out through our audit reports. We issue, within the public sector, of course, guidance material to agencies on better practices. We have a newsletter in which we seek to capture the messages from our reports for the benefit of the Public Service as a whole. But it is, I would accept, an understated role for the Auditor-General.

Having said that, I think the press do manage to pick up on the stuff that is important. When we do, say, important matters, they are picked up in the press. But the other side of the question is—and it goes to your earlier question—the Audit Office has been slimmed down and it is a pretty efficient outfit. We have actually cut away research capabilities, reports production areas and planning branches we have had in the past, to endeavour to cope with the resource situation that we have. I do not think they are necessarily all desirable decisions, but that is the way we are today, and that is why it is so important that I do make some headway on this resource matter in the next 12 months.

Senator WATSON—Can you assure the Senate that the training and the skilling of your staff is not going to be severely impacted?

Mr McPhee—We have made a couple of strategic decisions, one of which is investing in a learning and development program for our staff. That is for two reasons. One is the turnover reason. The second one is that an important part of retention today, particularly with the younger generation, is that people are very interested in getting as much training as they possibly can and as much experience as they can. So we have to respond to that. So, despite the resource constraints that we have, we have decided to make that long-term investment in learning and development programs.

Senator MURRAY—I have a great deal of questions, but I will not take up all the time. Senator Watson covered off the two per cent—in fact, it is 3¼ per cent—dividend issue effectively. Auditor-General, I am a bit alarmed that you have already run up the white flag. I think it is possible for you to make a case via the Joint Committee of Public Accounts and Audit that, given the increased obligations on the public sector for greater productivity and efficiency, and the high ambitions of the government, the government and the parliament will find that they need the Auditor-General to be more active. So I think it is a case of your case not having been made well enough, either by you or by your parliamentary friends, which is the JCPAA—that is your friend in parliament. Are you really just going to give up and wait until the next budget or are you going to make an effort to try and get some additional funding in the next round of appropriations?

Mr McPhee—I have written to the people most important within the government to try and get some understanding of our position in this last budget context. I have also, obviously, raised this matter with the JCPAA. I stated that I did not think it was in the best interests of the parliament for this resource reduction to occur to the Audit Office. I have said as much as I reasonably can to the parties that are most directly affected by our resource position. I appreciate, I guess, that it is an issue for the parliament to deal with at the end of the day. I have been given some indication that there is a willingness to look at this position in this next 12-month period. I guess I have been willing to take that on board, Senator Murray. But the point you are making is a fair one. I have to say, frankly, that if we do not have success in this next 12-month period I will need to seriously do something to stop the Audit Office being hollowed out in terms of its capacity to support the parliament.

Senator MURRAY—I think there are two committees that are directly aware of your importance—those being the JCPAA and this one. But, taking Senator Watson's point of self-promotion, it may be that you need a wider understanding in the parliamentary community of the effects on your budget and your performance of a number of years of efficiency work. I mean, you are a slimmed down organisation. There might be a need for greater promotion within the parliamentary sector. Do you accept that?

Mr McPhee—Absolutely, Senator Murray, we do. We do seek to meet new members of parliament and talk to members of parliament through a visit program, and we assist committees where we can. It is a balancing act where we put our resources, basically, but I certainly take on board, and would not argue with, the point that we could do more. It is just a function of where you allocate the resources.

Senator MURRAY—You have not had much more time than the rest of us. You would have only seen the budget papers when they landed on budget day. I want to ask you about a specific area of the budget paper compilations. As you know, both the previous government and this government have supported the advance towards a uniform and harmonised presentation of the accounts and standards. Could you just briefly encapsulate for the committee how far you think we are on that road and how much further we have to go.

Mr McPhee—I think public sector reform in Australia has always been well regarded and we have got a good track record. The other thing I would say about track record is that the working relationship between the bodies that set accounting standards and the public sectors within Australia has been fairly solid. We have seen in recent times the development of this new accounting standard which seeks to harmonise the traditional budget presentation of accounts with the financial reports that are typically provided in the wider community. The proposal is, with respect to next year, that there would be this combined, harmonised report. I have to say that I am also seeking resources, Senator Murray and Senator Watson, to be able to do an audit of this new report—without success so far, but we will run that up the flagpole again. But it is a positive development. The reason I say it is a positive development is that I think most members of parliament would find the various forms of accounts that are produced quite confusing—certainly, as someone who works within the system, I sometimes find them confusing as well. So this is intended to aid the reconciliation process between budget presentation and the presentation of the consolidated financial statements.

Senator MURRAY—So in summary is that a tick or is it a ‘must do better’ sort of response?

Mr McPhee—It is very much a step in the right direction. The proof of the pudding will be in the eating, but I think it is a very positive step. I am not aware of any other country that is seeking to do this, so I think we should give ourselves a pat on the back, or the finance department and Treasury should receive a pat on the back on this one. At the moment, everything is going according to plan, as far as I am aware.

Senator MURRAY—Good. Does the ANAO audit the financial statements of the Future Fund?

Mr McPhee—It does.

Senator MURRAY—My impression is that one of the many groups somewhat stained by the short selling and margin lending expose, if we can call it that, in the market has been the auditor community. They did not, apparently, identify the risk with those companies they were auditing as to their exposure and their liabilities. I would hate for the Auditor-General’s department to be found in the same situation. Have you assessed or confirmed to your own satisfaction that the Future Fund is not engaged in any margin lending or short selling practices or allowing them to occur with respect to their investments, which may put those investments at risk?

Mr McPhee—I cannot speak specifically but I can tell you, as it turns out, that tomorrow I am going to a meeting in Melbourne to discuss our audit coverage in relation to the Future Fund, because I am conscious, of course, that it is now a very large-scale investment and becoming larger as time passes. I am very much alive to the issue about the reputation not only of the Future Fund but of the Audit Office as well. So I want to make sure, by personally being involved, that our audit coverage is appropriate and we can make sure that when we report on the financial statements of the Future Fund we can do so with confidence.

Senator MURRAY—As you know, in Australia’s financial history there have been moments of controversy with Reserve Bank holdings and investments periodically, most of which they managed to get themselves out of very successfully. This is a different and more lively exposure to the market, I would suggest.

Mr McPhee—Correct. As you would be aware, the audit approach these days is very much expected to be risk based and to understand the risks of the entity, how the entity seeks to manage those risks, what controls they have in place, what reporting systems they have in place and whether they are working, and so it is an area that we would pay close attention to in terms of the Future Fund.

Senator MURRAY—Do you have the skills and expertise to assess this area? It seems a remarkably complicated area.

Mr McPhee—It is, and we have taken a strategic decision. On the audits where we do not have all of the expertise, we will work with the big four firms. So we have an outsourced contract with Deloitte. We are closely involved in the management and the oversight of that, but Deloitte provide the specialist skills to help us do that audit.

Senator MURRAY—I am not sure that reassures me, Auditor-General, because the big four have been caught out in this area as much as anyone else—which is not a reflection on them so much as a reflection on a lack of understanding of the complexity of what the consequences are of margin lending and short selling.

Mr McPhee—In terms of managing the risks for my own organisation, I guess, being an organisation of 300 people, of which probably 130 are in our financial statement audit division, we cannot hope to attract and retain the high levels of industry knowledge that are required to undertake such an audit.

Senator MURRAY—You miss my point. My point is that I am not so sure that the big four will be any comfort to—

Mr McPhee—I am coming to that, Senator Murray. So we do work with the firms to make sure we get the skills. But we are, as I indicated, involved in the planning and the design of the audit and the oversight of the findings, to try and ensure that we can cover off any risks to the audit side that may eventuate. It is the only practical way, Senator Murray, as you will appreciate. You need people who work in this space all of the time, and we have only got one Future Fund and one Reserve Bank and after that our client load in that area thins out a bit. So we do have to buy in the skills. And the price of those skills tends to be rising at greater than the indexation that is applying to the budget arrangements.

Senator MURRAY—It is very high. Yes; they are not subject to a two per cent efficiency dividend. Well, I am glad you are alert and alive to that.

Turning to the Audit report No. 32, on the preparation of the tax expenditure statement, I compliment the Audit Office on that report; I thought it was a really good effort. The issue which emerges for me is that, with respect to standards—namely, a settled and high-level sort of appraisal of the real costs and benefits of tax expenditures—we are still way off the mark in comparison to the standards which govern traditional outlays, and I think that comes through strongly here. Personally, I am not satisfied—though it may be because I am not well enough informed—that either the standard-setting body, the AASB, or government itself, through the finance department or ministerial initiatives, are conscious enough of the need to drive as hard on tax expenditures standards as they have driven on the normal financial statements and outlays. Do you agree with that?

Mr McPhee—I do agree that it has not got as much attention. It is probably because it is much more specialised and there are not as many users for that information, or preparers of that information—those being each treasury in Australia, and that is about it, probably. But the point you make is valid: there are no standards in this space.

Senator MURRAY—And the point you have made in this report is that the quantum is very high. What are we talking—\$55 billion? And it is understated by \$15 billion. So we are now up to \$70 billion perhaps—estimated—and that is just the Commonwealth. If you start adding in the states and territories, it gets probably towards \$100 billion. I do not know; I am guessing. But the fact is that the work that has been done with respect to harmonised standards and uniform standards on the outlays side needs to be replicated on the tax expenditures side of it. Are you in agreement with that?

Mr McPhee—As you are aware, we have given encouragement to that in the report. But so much depends on the basic benchmark starting position on these tax expenditures. There is a great deal of judgement and I think even Treasury admit there are fine judgements to be made against a whole range of taxes in this space. So it is very judgemental at the moment.

Senator MURRAY—I refer to table 2.1 on page 32, which makes the point I am making. It has a comparison of key management arrangements for existing outlays and existing tax expenditures. Without going to the detail, because it is not easy to do that here, the table has eight compartments and under ‘Existing outlays’, it has ‘yes’ in all the various checkpoints, some with a little bit of explanation. But under ‘Existing tax expenditures’, three have ‘no’ and the rest are ‘infrequently’. The difference between the two types of outlays is astonishing. We really do have to narrow that gap. Would you agree with that proposition?

Mr McPhee—I agree, yes.

Senator MURRAY—The reason I am raising this at estimates is that there is no other mechanism than this and the Joint Committee of Public Accounts and Audit to make it clear that this is a real deficiency in our financial reporting system, not through ill will or anything of that sort, but nobody has a real grip on this yet. The other table I want to draw attention to is table 4.1 on page 69, ‘Reliability of quantifiable tax expenditure estimates’. You do not have a total but there must be a couple of hundred in number. In the very low category—in other words, very little data and of poor quality—there are 19 with an aggregate estimate of \$866 million. The low category, with little data, has 38 with an aggregate estimate of \$3.7 billion. The medium-low category has 20 with \$5.1 billion. The other categories very quickly get up to high figures. Do you get the sense that the government is alive to this problem in the sense that they have to understand they have had to push it far harder with those bodies who develop standards and benchmarks?

Mr McPhee—I will make a general comment and I will ask Brian Boyd to perhaps pick up on it. One of the issues from a government perspective is, if you want better quality information or better quality estimates, you need more information, and often more information means taxpayers and others having to provide that information. So there is always a balance between asking for additional information through the tax system to be able to get better estimates—

Senator MURRAY—My point, if I can, because I want to deal with this at the policy level, is that, until you have set the standards, the people who design the software to produce the data do not know what they have to produce it for. So you really have to get the standard set before you try and engage in the data manufacture—that is right, is it not?

Mr McPhee—Correct.

Mr Boyd—We would agree. I guess we would even go a step further back. The numbers you are quoting out of table 4.1 are of the quantified tax expenditures. The report notes that 60 per cent of tax expenditures have been quantified but that means a further 40 per cent have not been quantified. In addition, the numbers you quoted earlier—the \$41 billion and the \$15 billion and so forth—have some difficulty about them. You have noted that there are different levels of reliability. As I mentioned, those are just the numbers which have been quantified;

there are some quite large tax expenditures that would not be quantified and are not therefore included in that figure.

Yes, the key starting point for us is the standards you set. The Charter of Budget Honesty was developed in a fairly constrained time frame. It did seek to draw upon existing standards, being the government finance statistics, which are used in other parts of the budget papers, and the Australian accounting standards. But also it is noted that neither of those standards are actually designed to address tax expenditures. The other thing, from our perspective, with the numbers that you quote is that they are prepared on a basis which is different to the way the numbers come forward in the first place to the budget. It is a question of revenue gained versus revenue forgone. With a lot of tax expenditures, you expect second and third order effects. As the tax expenditure is hopefully having its impact, it feeds its way through in behavioural change with the taxpayers.

The numbers here are not prepared on the basis that it actually picks up those behavioural effects, so, whilst originally when government consider a new measure for a tax expenditure, they will look at it on a revenue gain approach to understand what are likely to be the second or third order effects of it as it comes through, when the tax expenditure statement is prepared, largely because of data limitations and the absence of standards to govern that, those estimates are prepared on a basis which does not consider those second and third order effects.

So our recommendation was recognising there is a trade-off between the burden you put on taxpayers to provide extra data and the need of government to know the cost of our tax expenditure in a feedback loop sense—is the tax expenditure hitting the people we intended it to hit; is it costing what we expected it to cost?—to know whether it is working as intended. By not having revenue gain estimates which pick those effects up, you are not getting a very good feedback loop. Our suggestion in the recommendation was that, for the large or otherwise significant tax expenditures, that needs to be picked up as well.

Senator MURRAY—I think that is valid. Senator Watson, on Monday I think it was, made the point, in a discussion as to the quantification of immigration effects in the budget papers, that international standards do require that identifiable and quantifiable effects of policy should be recorded in the budget papers. What you have outlined to us, both in this report and in your remarks now, is that that is not happening with respect to a large body of tax expenditure. That is accurate, isn't it?

Mr Boyd—Correct.

Senator MURRAY—I want to briefly deal with Audit report No. 30 2007-08: *The Australian Taxation Office's use of data matching and analytics in tax administration*. I learnt things about statistics which I did not want to know probably: basic analytics, advanced analytics and all sorts of things. I wanted to ask you whether, in economists' language, we are reaching the point of marginal utility. In other words, have our systems become so far advanced that you do not need to do much else at the Commonwealth level? It is probably at the state level that you need to get the analysis and the interaction with the Commonwealth most advanced. You do record in your report—mostly in the appendix, I think—the various systems that are employed for data matching and mining and how they interact with the state systems. My impression of this was that, in technological terms, the tax office is very far

advanced at the Commonwealth level now. You probably cannot do much more, but more needs to be done in interacting with the states. Is that an accurate impression?

Mr Chapman—Thank you for the question, which brings out one of the insights coming from the audit report. Obviously for matching one requires high-integrity matching data, and the tax file number, in the main, provides that high level of integrity to matching. It is not compulsory, as you know, in our country for people to quote their tax file number, so one does look for alternative matching options. I believe our audit identified that the ATO was developing quite sophisticated mechanisms to enhance—

Senator MURRAY—They certainly are.

Mr Chapman—that matching capability. I think the point that you are making as well is that it requires all parties to facilitate the achievement of that matching if possible, particularly given the number of state government databases that do not use the tax file number as the common identifier. Then good liaison and cooperation is required to—

Senator MURRAY—Let me cut to the chase as to where I am going with this. My proposition is essentially this: if you capture all the revenue that you can through existing law, you are then able to lower the tax burden generally because you do not have that large number of people who are not paying their full dues. So these integrity measures, I think, contribute to greater compliance and the possibility of lowering the tax burden because you are being more efficient in your tax collection. It did not emerge from that report whether the Audit Office has the view as to where there was much more to be done. In my sense of things—and, again, it might just be ignorance on my part—it is the interaction with state records and state systems.

Mr Chapman—If I can answer perhaps in general and then come to the specific. When you talk about the compliance effect, obviously there is a direct revenue gain achieved through the matching activity where noncompliance is identified, and there is a broader compliance effect through people knowing that there is a potential for them to be caught if they do not properly comply through things like data matching. So there is that combined benefit. I do not think that we have explored the issue fully in the report, in terms of what you are looking at there.

Senator MURRAY—No, you haven't. That is why I am questioning it.

Mr Chapman—As a general statement, from our observation the ATO does seek, with any of their compliant projects, to assess both the likely benefits and the cost of the exercise. So there is, at a more micro level, consideration as to whether it is a cost-effective strategy to invest in better matching. Looking at the potential return that flows—

Senator MURRAY—I feel you have missed an opportunity—not deliberately, but just from my perspective. COAG has been tasked—and the Prime Minister has made it very clear—with making the whole federal system more efficient. That includes, and very much means, getting the financial system integrated and taking out obstructions and impediments which result in unnecessary costs and inefficiencies. I think that this is an area that probably has not been highlighted enough in that overall approach. That is what I am saying to you. Would you agree with that or do you think I am—

Mr White—I think we would accept your comment that that is not highlighted in this report. I think the overall message in the report is that the key, as Mr Chapman was saying, is around the unique identifier. That is the key. If you have a unique identifier, like a tax file number, it makes it much more efficient for the tax office to do the data matching. That was one of the key messages coming through. So in terms of interacting with other databases and other levels of government, I think the key will be around making sure that we have a unique identifier.

Senator RONALDSON—Is part of the role of your office to overview government contracts?

Mr McPhee—Our role is to review the performance of public administration, broadly defined.

Senator RONALDSON—Which would include government contracts?

Mr McPhee—Yes, it would.

Senator RONALDSON—If required, do you investigate the awarding of government contracts as part of that process?

Mr McPhee—Strictly, I cannot be directed to do any particular audit, but I may be requested.

Senator RONALDSON—If requested, yes indeed. If requested, you would investigate the circumstances surrounding the awarding of a government contract?

Mr McPhee—We do receive a range of requests, including obviously from members of parliament and parliamentary committees. I take them on board and decide whether they need to be done now, whether they get taken into account in our planning process and how best to handle them. Sometimes I just make brief inquiries and at other times we may decide to do audits.

Senator RONALDSON—I will be writing to you officially today in relation to the circumstances surrounding the signing of a government contract as a result of the 2020 Summit with CMAX Communications. Please take that aspect of it on notice. There was considerable discussion about it last night in this place. I will just take you through the circumstances very briefly. The evidence given in the committee last night was that there was a contract awarded on 3 March 2008, I think, to a company called CMAX Communications. On 29 February 2008, I think, there had been a meeting with the Department of the Prime Minister and Cabinet and representatives from the 2020 Summit organisation and a representative from the minister's office. A direct source contract was awarded to this company CMAX Communications. The evidence given last night was that this was the only company that was formally interviewed in relation to the awarding of the contract.

What concerned some members—I would hope all members but certainly some members—of this committee last night was that CMAX Communications is owned by the media adviser to the cabinet minister Mr Fitzgibbon. We were advised last night by the department that, in quite extraordinary circumstances, they were not advised of the fact that Mrs Taubenschlag, the wife of the senior adviser, had not advised the department of this potential conflict of interest. Indeed, no-one from the Prime Minister's office, despite having

recommended or suggested that CMAX Communications be considered for this contract, alerted the department to the fact that there was this potential conflict of interest.

Clearly, Mr McPhee, we view this as an extraordinarily serious matter. I will not ask you to comment on this, but we believe this is a classic case of 'jobs for the boys'. This came directly from the Prime Minister's office. A contract worth nearly \$60,000—I repeat: \$60,000—was awarded to a company run by an employee of a senior cabinet minister. I appreciate that you would be unable to comment at this stage, but please take that notice. I invite you to look at the *Hansard* transcript from last night. We believe that this is a most remarkable set of circumstances that is deserving of your thorough investigation. I do not ask you for a response today, but I will be writing to you and asking you to investigate what we believe is a very, very serious breach of governance that started in the Prime Minister's office and went down to the stage where this contract was awarded.

Mr McPhee—Thank you, Senator, for that early notice. We will certainly get back to you pretty quickly on that.

Senator RONALDSON—Thank you.

Senator MINCHIN—Mr McPhee, I have a couple of questions relating to your financial statements and matters surrounding that. You have forecast a deficit for 2007-08 of, I think, half a million dollars which is attributable 'to the Australian government'. The explanation for that on page 83 of the PBS is that:

The estimated operating deficit in 2007-08 reflects the additional work required to undertake a review of the Defence Materiel Organisation's major capital equipment projects.

We also have, as a related matter, a budget expense measure for the ANAO on page 73 for defence equipment projects with \$1½ million in 2009-10 and the two subsequent years, and three-quarters of a million dollars next year. I wonder if you could just explain exactly what you are doing with the DMO. Is that work that you are undertaking at your own initiative, or is it work that you have been requested to do and therefore funded for? If you have been funded for it for the four forward estimates years, is it the case that the work is commencing in 2007-08 but you are not being funded for the work you are doing now and that is why you are showing a deficit? If you have not been funded, why aren't you being funded, and why are you being required to show a deficit for work which, presumably, you have been asked to do by the government?

Mr McPhee—Thank you, Senator Minchin. Let me endeavour to answer your questions. Going back a little bit, the JCPAA recommended in December 2006 that the Audit Office work with DMO to list the top 30 capital equipment projects and indicate their status in terms of cost, schedule and capability. The Audit Office would provide an overview of that to say whether those estimates looked reasonable. We were very supportive of that, and the committee recommendation—it is a joint committee—had full support. The then Prime Minister had indicated that the Audit Office should consider bringing forward a budget submission to that effect.

The committee had actually wanted the work to start in 2007-08 rather than on the Prime Minister's advice which, from memory, was 2008-09. On the strength of the support for it, I agreed as an office to invest half a million dollars of the office's resources on the basis that I

would claim it back in the budget context. So, in this year's budget, we went forward seeking to reclaim our half a million dollar investment—that, I admit, I invested on a risk-managed basis—as well as funding going forward. We did not get the return on our investment, so my risk management was not as effective as it might have been.

Senator MINCHIN—The government refused to fund you for the half a million dollars?

Mr McPhee—Yes, that is the point.

Senator MINCHIN—You are saying it as nicely as you can; I understand that.

Mr McPhee—That is the point. The other thing is: this year we have received three-quarters of a million dollars but in the subsequent years we have received \$1½ million, as we had requested.

Senator MINCHIN—That is what you sought?

Mr McPhee—We had sought \$1½ million ongoing. We had in fact sought \$1½ million for this budget year, but we got three-quarters of a million dollars. That may have an impact on the rate of progress.

Senator MINCHIN—I presume you will have to scale back.

Mr McPhee—We will have to scale it back a bit to do that. The other side of it is: we have sought to claw back, even though we did seek approval for the half a million dollar deficit. It is shown in the papers here. We are doing what we can to claw that back, so we may come out okay.

Senator MINCHIN—What do you mean by that?

Mr McPhee—We may not run a deficit. The year is yet to complete, but we may not run a deficit.

Senator MINCHIN—From other activities—scaling back other activities?

Mr McPhee—Yes.

Senator MINCHIN—For the benefit of this committee, could you briefly overview the work that you will be doing with the DMO. Is it done with the full cooperation of the DMO? What is the outline of the project?

Mr McPhee—Yes. I might get Peter White, who is my right-hand man on this DMO work, to give you a quick outline, but we are working very well with DMO on this.

Senator MINCHIN—Good.

Mr White—It will only be successful if we can work cooperatively with DMO. We aim to table a report on a pilot project that we are doing. We aim to table that in late November. It will hopefully be a joint report with DMO and it will be a report on nine projects that we are looking at in terms of a pilot.

Senator MINCHIN—These are current projects, not retrospectives?

Mr White—Yes, these are projects that are ongoing. They are nine of the largest projects. We have chosen them because they are spread across the services. We have developed a project data summary sheet with DMO that we are working through to develop a

methodology. We are developing procedures and instructions. The aim of the pilot is to be able to test that, so that when we go into the next financial year—as Mr McPhee said—rather than aiming for, say 30, it will probably be somewhere between 12 and 15 projects. We will have the methodology in place. We will have staff trained. This is slightly different for us in a number of respects.

Senator MINCHIN—They are performance audits.

Mr White—It is a bit of a halfway house in terms of what we are trying to do. We have had a bit of a look at what the US does, but we are probably more guided by what is happening with the UK National Audit Office. It is a quick review of major projects—it is not an in-depth performance audit, which can take 11 months. It is a quick snapshot, looking at costs, schedule, variations and capability. It is to provide this snapshot in terms of up to 30 projects eventually.

Senator MINCHIN—Your aim is still the 30?

Mr White—We will not get to 30 next year.

Senator MINCHIN—The \$1½ million you sought would fund 30?

Mr White—The aim was to do 30 projects, yes. Next year will be year 1. We would be very hopeful—we are in discussions with DMO now—of getting 15 projects done.

Mr McPhee—We will build to 30 in the following year.

Mr White—We would be trying to build to 30 projects.

Senator MINCHIN—Are these just one-off snapshots?

Mr White—If you have a project that might run for, say 10 years, you would be tracking that project over a 10-year period.

Senator MINCHIN—An annual snapshot?

Mr White—Yes, an annual snapshot of each project. There is a heavy reliance on DMO to work with us to provide the information.

Senator MINCHIN—Would your normal work with Defence projects continue unchanged? This would be on top of—

Mr White—Yes. Looking at the past coverage in Defence for the last couple of years in the performance audit area, we have had a heavy emphasis on DMO and looking at the projects. In our forward program, which we are finalising in June, we are probably doing fewer projects in Defence and trying to get a wider spread across Defence. From memory, where in the past four or five of our audits in Defence that we have tabled each year might have been around DMO and major capital projects, it might be around two projects each year.

Senator MINCHIN—As a result of—the consequences of doing these snapshots—

Mr White—Because of those resources having been put into other areas in Defence.

Senator MINCHIN—Is that a resource decision or is it a qualitative decision based on—

Mr White—It is a strategic decision to try to leverage the work and also spread our resources. We have a team of about 10 performance auditors that work on Defence. It is to get a wider spread across Defence—and it is looking promising.

Senator MINCHIN—Thank you. That is all I had.

Senator MURRAY—Mr McPhee, the responsibility for the Audit Office has only just shifted to the new minister, who is at the table, Senator Faulkner?

Mr McPhee—Yes.

Senator MURRAY—Have you had the opportunity to brief him yet on the issues that concern you with respect to the efficiency dividend and the issues that have just been canvassed by Senator Minchin?

Mr McPhee—I certainly have had the opportunity to speak to Senator Faulkner on a number of occasions. We have discussed the resourcing issue of the Audit Office but not the top 30 matters specifically.

Senator MURRAY—Is it your intention to acquaint the minister with the history of the development of this DMO measure? As you know, I interviewed the Deputy Auditor and Comptroller General of the United Kingdom and the head of the audit office there, who dealt with these top 30 issues. I conveyed my knowledge of that to the JCPAA, who took it up very strongly and supportively, and it has had a long gestation. It is not just a nice-to-do trial activity; this is a materiel audit initiative to get at the nub of what have been sustained systemic problems in Defence audits. That is accurate, isn't it?

Mr McPhee—Absolutely. The DMO have got work to do in terms of their systems and the underlying support for a lot of the information they have. They are seeing this very positively to put a focus on their own performance and use it internally as a key management report of their own. So it is a very positive approach that Steve Gumley is taking to this report and the way he and his organisation are working with us. There will be hurdles because we will be looking for support and the right systems et cetera. I suspect that in the early days there potentially will be issues around those. The positive thing is that they will at least have a focus in which to work in the years ahead.

Senator MURRAY—I hope, Madam Chair, that this session has acquainted the minister with the fact that the Audit Office's cloth has been cut too fine and they need more funding.

CHAIR—I remind committee members that any further questions should be placed on notice.

Mr McPhee—Could I just record the appreciation of the Audit Office to Senator Watson and Senator Murray for their work on the committee. We may not appear in front of them again as they are due to retire. I want to put on record we appreciate their close interest in our work.

FINANCE AND DEREGULATION PORTFOLIO**In Attendance**

Senator Faulkner, Special Minister for State

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 John Edge, Division Manager, Corporate Services

Mr David Yarra, Chief Audit Executive

Ms Emma McDonald, Acting Branch Manager, Parliamentary and Corporate Support

Mr Michael Hirschfeld, Branch Manager, Strategic Partnerships

Ms Philippa Crome, Branch Manager, HR Services Branch

Mr Bruce Brown, Special Counsel, Legal Services Branch

Mr Greg Smith, CAPS Point Person

Mr Daniel Collet, CAPS Point Person

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

Mr Andrew Harvey, Acting Branch Manager, CFO Unit

Outcome 1

Dr Paul Grimes, General Manager, Budget Group

Mr Lembit Suur, Head of Taskforce, Expenditure Review Taskforce

Dr Greg Feeney, Acting Division Manager, Industry, Education and Infrastructure Division

Mr John Ignatius, Division Manager, Social Welfare Division

Mr Peter Saunders, Division Manager, Government and Defence Division

Ms Jackie Wilson, Division Manager, Budget Policy and Coordination Division

Ms Donna Phillips, Branch Manager, Budget Coordination Branch

Mr Arthur Camilleri, Branch Manager, Long Term Budget Policy Branch

Mr Tim Pyne, Branch Manager, Budget Analysis Branch

Mr Geoff Painton, Branch Manager, Central Agencies Branch

Ms Sharon Ong, Branch Manager, Health and Ageing Branch

Ms Nicole Lamson, Budget Group Point Person

Ms Kathryn Campbell, General Manager, Financial Management Group

Mr Mike Loudon, Division Manager, Financial Framework Division

Mr Colin Plowman, Director of the Office of Evaluation and Audit

Mr Peter McCray, Division Manager, Deregulation, Funds and Superannuation Division

Mr Alan Greenslade, Branch Manager, Deregulation Policy Branch, Deregulation, Funds and Superannuation Division

Mr George Sotiropoulos, Branch Manager, Superannuation Policy Branch, Deregulation, Funds and Superannuation Division

Mr Tim Youngberry, Division Manager, Financial Reporting and Cash Management Division

Mr Brett Kaufmann, Branch Manager, Financial Reporting Branch, Financial Reporting and Cash Management Division

Ms Su McCluskey, Executive Director, Office of Best Practice Regulation

Ms Danielle Finnigan, FMG Point Person

Outcome 2

Mr Simon Lewis, General Manager, Asset Management Group

Mr Robert Butterworth, Division Manager, Shareholder and Asset Sales Division

Mr Rick Scott-Murphy, Division Manager, Property and Construction Division

Mr John Grant, Division Manager, Procurement Division

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

Ms Carolyn Hughes, Branch Manager, Client Services

Mr Ken Sweeney, National Manager, COMCAR

Mr Greg Miles, Branch Manager, Entitlements Management

Mr Stephen Taylor, Branch Manager, Legal Services

Mr Greg Smith, CAPS Point Person

Mr Daniel Collet, CAPS Point Person

Mr Brett Quester, Director, EOIT, FeSG

Outcome 4

Ms Ann Steward, General Manager, AGIMO

Mr Patrick Callioni, Division Manager, AGIMO

Mr Peter Alexander, Acting Branch Manager, Online Service Point Branch

Mr Graham Fry, Division Manager, AGIMO

Mr Trevor Smallwood, Branch Manager, Capability Building Projects

Mr Brian Stewart, Branch Manager, Strategic Directions Branch

Ms Kayelle Wiltshire, Branch Manager, Service Delivery Operations Branch

Australian Electoral Commission

Mr Ian Campbell, Electoral Commissioner

Mr Paul Dacey, Deputy Electoral Commissioner

Mr Tim Pickering, First Assistant Commissioner, Electoral Operations

Mr Paul Pirani, Chief Legal Officer

Mr Brad Edgman, Director

ComSuper

Mr Leo Bator, Chief Executive Officer

Ms Cindy Briscoe, DCEO Internal Services

Mr Marcus Markovic, DCEO Information and Technology Solutions

Ms Emily Canning, Chief Financial Officer

Australian Reward Investment Alliance

Mr Peter Carrigy-Ryan, Acting Chief Executive Officer

Mr Kevin Thompson, Head of Finance

Future Fund

Mr Paul Costello, General Manager, Future Fund Management Agency
Mr David Neal, Chief Investment Officer, Future Fund Management Agency
Mr Paul Mann, Head of Finance, Future Fund Management Agency
Mr Gordon McKellar, Head of Operations, Future Fund Management Agency

Medibank Private Ltd

Mr George Savvides, Managing Director, Medibank Private

[10.02 am]

CHAIR—We will move to general questions on outcome 3.1, Ministerial and Parliamentary Services.

Senator RONALDSON—Minister, I have a series of questions that are not going to take a great deal of time and most of which you will probably take on notice would be my expectation. Can the committee be provided with the full government staff establishment as of 1 May 2008, and can you include in that those positions that are still vacant? Perhaps you had better make it today's date.

Senator Faulkner—If you indulge the committee and me, and we are able to consider the original date that you suggested, 1 May 2008, I have got the usual document in relation to staffing positions. You would appreciate these take a little time to prepare, and 1 May 2008 is the cut-off that is being used here. I can say to you that there have been no changes in relation to the absolute numbers since 1 May 2008. So if I table that document it might save us—

Senator RONALDSON—That has got vacancies on it, I think, hasn't it,?

Senator Faulkner—I will check with officials, but it has always traditionally been establishment figures—that remains the case, Senator. It remains establishment figures whether or not the positions are actually filled. However, if it would assist you, Senator, I will table that document now.

Senator RONALDSON—Sure. If you could provide me with details of the vacancies within that establishment number as of 1 May 2008. I am happy for that to be taken on notice.

Senator Faulkner—That is fine, Senator. I have just checked with officials, and we certainly do not have that information available for you.

Senator RONALDSON—I didn't expect you would.

Senator Faulkner—However, the committee has received the other documents.

Senator RONALDSON—Have any additional staff positions been created since the government staff establishment was presented to the committee in February this year?

Senator Faulkner—No. They are dealing with the issue at the moment of changes that will occur in the Senate as of 1 July 2008—I am really flagging that issue with you, Senator. You would appreciate there are changes in the Senate.

Senator RONALDSON—It was question 3 and 4 on my list.

Senator Faulkner—I am glad I have anticipated at least one question—more by good luck than good management, I suspect, in the hearings. But just to say to you, Senator: that clearly there will be some changes there. They will not take effect until 1 July 2008.

Senator RONALDSON—That will flow of course from the Greens party receiving official party status as of 1 July 2008. Are you able to give the committee preliminary advice as to the likely staffing once that official status is received?

Senator Faulkner—I have had some discussions with Senator Brown, who is the leader of the Australian Greens. As you would appreciate, the Greens, as you say, obtain party status in the Senate on 1 July. I have also had a discussion with Senator elect Xenophon about his staffing issues when he takes his seat at that time. I can say to you that I have made a recommendation to the Prime Minister and I think the Prime Minister has agreed to an appropriate level of staffing for the Greens. I would also say that I am literally in the process of formally communicating this to Senator Brown—in other words, I have signed a letter. I suspect that he would have not received it yet. So that is where the process is up to, and I am being as frank with you as I can.

Senator RONALDSON—Perhaps if you could take on notice the tabling of the letter, which I am happy for you to provide when you believe that it is more than likely that Senator Brown has received a copy.

Senator Faulkner—I think it would be more appropriate if I table it for the benefit of the committee and take on notice the staffing arrangements for the Greens once they achieve party status on 1 July. I am not 100 per cent certain that that letter has been received by Senator Brown. That is the only reason I have some caution in this. It is just a courtesy more than anything else. But I will certainly provide that information for you. I would make the point, obviously, that the same constraints apply to minor parties that have party status in the Senate that apply to government and opposition staffing. You would appreciate the impact of the government's policy in relation to cutting ministerial staff.

Senator RONALDSON—Acutely aware. I take it from that that we are not talking 1 July; we are talking about a tabling which would coincide with an appropriate level of knowledge from Senator Brown.

Senator Faulkner—I will certainly be able to provide that information for you within the estimates questions on notice limit. I might be able to do it earlier. I want to make sure that the courtesies have applied here. Once I have satisfied myself of that, we will provide that information. The committee needs to understand that, obviously, the new staffing establishment for the Greens, once they achieve party status, does not occur until 1 July. I will supply to you not only numbers but, in the interest of transparency, a breakdown of the classifications within the establishment.

Senator RONALDSON—I presume that any discussions with Senator elect Xenophon would relate to additional staff over and above his normal entitlement. What stage are those discussions at?

Senator Faulkner—In relation to Senator elect Xenophon, I have been able to outline to him in the broad the situation that has applied to an Independent Senator—or, for that matter, member of the House of Representatives—and what approach governments have taken in relation to that.

Senator RONALDSON—Just for the record, do you want to articulate that position?

Senator Faulkner—I can, but I would like to be precise in it. Effectively there is an additional personal staff. It may be on your tabulation there, the one that has been tabled. You will see the arrangements that apply to minor party or Independent senators in the Senate and the two Independents in the House of Representatives. You will note that they all have an additional assistant adviser. In the case of Senator Bob Brown and Senator Allison—who both lead minor parties that have four senators and do not have official party status because they do not have five senators—there is an additional assistant adviser. I have explained that situation to Senator elect Xenophon. He has talked to me about his personal circumstances, which I am sure you would not expect me to share with the committee—

Senator RONALDSON—I certainly would not.

Senator Faulkner—as I would not share the personal circumstances of any member or senator. But I have certainly been able to brief him about the pattern of staffing arrangements.

Senator RONALDSON—Is this by way of determination or is it just a precedent based allocation?

Senator Faulkner—It is a decision that effectively rests with the Prime Minister. The decision is communicated by correspondence. I will ask Ms Mason if she can give any better information than that, but that is my understanding of how this works.

Ms Mason—The minister is correct. The allocations of additional staff are decisions taken by the Prime Minister and communicated in correspondence from the Prime Minister's office.

Senator RONALDSON—I presume these ones all would have been under former Prime Minister Howard, looking at all those people there—perhaps not Senator Allison.

Senator Faulkner—There have been no changes in minor party representation since the change of government. I will ask Ms Clarke to respond to that for you.

Ms Clarke—All those additional positions to Independents were approved under the previous government.

Senator RONALDSON—Thanks very much. Minister, how many personal classifications, including special advisers, have been created?

Senator Faulkner—As of 1 May this year, there are four ministerial staff with personal classifications. As of the same date, there are no opposition staff with personal classifications. There is, however, one non-government staff with a personal classification. That is a total of five personal classifications.

Senator RONALDSON—On what basis was that breakdown done?

Senator Faulkner—Do you mean on what basis are the decisions made?

Senator RONALDSON—Yes.

Senator Faulkner—These decisions are made by the Prime Minister.

Senator RONALDSON—When were those decisions made in relation to those adviser positions?

Senator Faulkner—We would need to take that on notice. As you heard last night—but let me repeat it, just so that you are clear—as far as the government process is concerned, the

government staffing committee makes recommendations to the Prime Minister on these matters. You would appreciate that there have been comparatively few personal classifications in the Rudd government.

Senator RONALDSON—You will provide me with that information about when it was done?

Senator Faulkner—I am happy, if it would assist you.

Senator RONALDSON—Can you also advise me when the meetings of this group were? For the benefit of those who were not here until 11 o'clock last night, can you just run through who is on that committee?

Senator Faulkner—I have said this before, but I thought you were aware: the Prime Minister's chief of staff, the Deputy Prime Minister and me.

Senator RONALDSON—I am acutely aware, but, as I said, for the benefit of those who were not here last night could you just run through again who is on that group. Yes, I am acutely aware, as you quite rightly say, because I was here. This is for the benefit of those who might not have been here last night.

Senator Faulkner—I just did so, Senator, but you may not have heard. The Deputy Prime Minister, the Prime Minister's chief of staff and I are on it. Would it assist you if I tabled a document that is tabled from time to time in relation to personal classifications? It may assist the committee and answer some of the questions you may have.

Senator RONALDSON—What does it say, so we can determine whether it is likely to answer our questions?

Senator Faulkner—It is the standard form that has been tabled previously in relation to personal classifications. I suppose it is fair to say that these procedures have been developed over some time. The committee, perhaps not inconsequentially, when I was on the other side of the table, came to the view—and I still hold the view—that it probably saves some time in questioning about these issues. I am happy to table that document relating to personal classifications, if you wish.

Senator RONALDSON—That would be good.

Senator MURRAY—It is a great improvement on the early years. It was painful then.

Senator RONALDSON—When your committee is considering advice to the PM, what sort of criteria do you take into account before you make a recommendation, and what triggers the decision-making process? Is it the Prime Minister referring something to you for consideration in relation to the allocation of these positions, or is it cabinet colleagues that are requesting it? What triggers your committee's discussion of these matters?

Senator Faulkner—Usually, it is the employing ministers or parliamentary secretaries who have a view. In special cases, it may go the background of particular individuals who might have had a very high income level before they joined the ministerial staff or it might be a particular skill set. There are a range of reasons for this.

Senator RONALDSON—Can you go through who has got the special—

Senator Faulkner—I might just ask the officials to help with the number of personal classifications at the end of the last government. It was certainly over 30. By the end of the last government, there were over 30 of these personal classifications. As you can see by the number of personal classifications now—which is at five—it is something this government has not agreed to lightly but in particular and special circumstances. I have outlined the sorts of issues that are taken into account. I think most people accept that it is useful to have a committee to look at these things and try to cast an eye over them to make a judgement about the appropriateness or otherwise of recommending to the Prime Minister that he agree to a personal classification. I commend the fact to you that there are currently five under the Rudd government, and there were more than 30 at the end of the Howard government. So it is a process that ensures an adequate level of scrutiny and the Prime Minister has the benefit of that scrutiny as he makes decisions on these issues.

Senator RONALDSON—Thank you. What were the personal circumstances that required the allocation of two of the staff members to your office?

Senator Faulkner—Generally, those sorts of questions have not been answered by ministers at the table, but if you insist on asking those questions I will answer them—

Senator RONALDSON—I do insist, because you are the one who volunteered the information that this was the criteria on which these positions were allocated. So, I guess I am asking—quite right.

Senator Faulkner—You have asked about that. We generally have not identified those. I never did with the 30-odd personal classifications that existed at the end of the Howard government. I did not engage in that sort of questioning but, given that you—

Senator RONALDSON—I did not ask you for names. It is not a matter of asking for names of people. I am asking: what were the particular circumstances in your portfolio—you said that one of the criteria was personal circumstances—and in your office that required the allocation?

Senator Faulkner—I am about to—

Senator RONALDSON—Was it extra jobs that you had been given? Just give me an overview of why you particularly required two extra positions which required you to go to the committee to request them.

Senator Faulkner—Thank you for allowing me to answer the question. One of those is an ongoing personal classification of a staff member who worked for a previous opposition office-holder—ongoing after the change of government. Another is a new staff member who was engaged after the change of government. In my own case—and it will not surprise you to hear this, Senator—I did not involve myself in the decisions of the staffing committee in relation to my own staff members. I say that very deliberately to you in answer to the question that you have asked. In other words, I did not participate in the government staffing committee when those decisions were made, and the government staffing committee made a recommendation to the Prime Minister as a result of its deliberations. I think that is proper process, and that is what occurred.

Senator RONALDSON—Did you make a submission to the committee?

Senator Faulkner—What I did, as the employing minister, was refer the matter to the staffing committee, which is the process that we have adopted internally.

Senator RONALDSON—You must have given them something. Given that you say there are a range reasons on which the decisions are made, you must have provided them with some information on which they could make a decision—on your own criteria.

Senator Faulkner—Normally, when these things occur—it will not come as a surprise to you—there is background, CVs and the like, that is provided to the committee. I would have thought that most people on this committee would applaud that sort of strength of process, and acknowledge the fact that—

Senator RONALDSON—Look—

Senator Faulkner—Please let me finish my answer.

Senator RONALDSON—Point of order, Madam Chair. The opposition has agreed to a time frame today to facilitate the work of this committee. But I assure you that if the minister keeps on giving longwinded answers then, regrettably, it is going to put at risk the agreement that the parties have reached. Can I ask you, please, to ask the minister to shorten his answers so that we can accommodate the desires of the committee to get these matters dealt with today.

Senator Faulkner—Let me say, it is very easy to cast a slur or innuendo in a question, and I think the process that—

Senator RONALDSON—Half past 10!

Senator Faulkner—we have adopted is a very, very strong process and I think it is proper that it be outlined to the committee. And I have outlined it to the committee.

Senator RONALDSON—And I am pursuing with you the process that you have given to the committee. So whether you like it or not, quite frankly, is of little or no interest to me. You have outlined a process, and I am asking questions of that process. I will ask you again: on the criteria on which, you said, the decisions were made, which include personal circumstances, what information did you provide to the committee—which I acknowledge you were not present at—on which they could make a determination?

Senator Faulkner—Matters such as contracts, CVs, references—that is the sort of material that would go to a committee.

Senator RONALDSON—But that is the personnel. I am talking about the rationale, the reasons, for your need. What information did you provide to the committee for them to make a decision that you needed these extra staff?

Senator Faulkner—I have indicated to you: the committee made that judgement, in my absence, about my case and other cases—

Senator RONALDSON—How could they possibly make a judgement about this matter if they were not provided with the information on which to make the judgement?

Senator Faulkner—I cannot outline the process any more thoroughly. What I believe you should consider is this: there are currently four ministerial staff and five MOPS staff, in total,

with personal classifications. I think it was 34 or 35 at the end of the life of the Howard government.

Senator RONALDSON—You have told us that. You have also told us this morning that there was a process—I am not worried about the historicals. I have already heard this.

CHAIR—Can we just hear the answer. Senator Ronaldson, you have asked a question. I am trying to listen to the answer.

Senator Faulkner—I actually think it is valuable for the committee to be able to draw these sorts of comparisons. The process is as I have outlined it. I think it is thorough. There is a process. There was not a process previously. It is a good process. I think it is a process that has integrity. I know from my involvement on the committee that it properly scrutinises these issues and makes judgements and recommendations to the Prime Minister. I cannot say any more.

Senator RONALDSON—How can they properly scrutinise this issue if they are not provided with the information? How is that possibly an appropriate level of scrutiny? You have already said to us that these positions are granted on the basis of special circumstances and other matters. I have asked you what information you provided the committee with, and you are telling me you have provided them with a CV.

Senator Faulkner—They are not additional positions. They are a different classification.

Senator RONALDSON—Whatever.

Senator Faulkner—Again you are suggesting they are additional positions; they are not.

Senator RONALDSON—You have a process. What information did you provide this committee, on which they made the decision, for the allocation of these staff members?

Senator Faulkner—I cannot give you a better answer than I already have.

Senator RONALDSON—So the minister—

Senator Faulkner—Why don't you talk about the process that existed—the non-process, the total lack of process—in relation to the 35 personal classifications at the end of the Howard government?

Senator RONALDSON—We can always tell when we get under your skin because you advert to this. We are talking about today and all of a sudden—

Senator Faulkner—I think the comparisons are worth considering.

Senator RONALDSON—when something happens and something is wrong with your process, you say, 'We will just go back.' I did not think you were going to operate like that. But, if that is the way you choose to, that is entirely your call.

Senator Faulkner—I am certainly going to draw comparisons in relation to these matters with what occurred during the life of the Howard government where I deem them to be appropriate—if people are being slurred, which is what is occurring.

Senator RONALDSON—Come on. You are a big boy, Minister. That is hardly a slur. Asking you about process is hardly a slur. Get over it.

Senator FIFIELD—Personal classifications—the guts of it is that it is a MOPS staffer who is paid more than the standard pay grades provide for?

Senator Faulkner—Yes.

Senator FIFIELD—That is essentially it.

Senator Faulkner—In a manner of speaking. Perhaps I could ask the officials to give a more technically precise answer so that you are clear on it.

Ms Mason—It may be a MOPS staff member who is on a personal classification which is different from the substantive level which they occupy. That can be a higher classification or it can be a lower classification. The five that exist at the moment are all higher classifications, but it is conceptually possible for it to be a lower classification also.

Senator FIFIELD—So it could be someone who is a personal assistant who fills whatever the designated personal assistant category is but is paid, say, as a senior adviser or at the top end of the adviser band or something of that nature. Is that right? That would be an instance?

Ms Mason—It is conceptually possible, although the difference between the substantive position and the personal classification would not normally be as marked as the example you have given.

Senator FIFIELD—So in the case of the Special Minister of State and these two positions which are personal classifications, are the substantive positions senior adviser positions? If so, are they paid outside of the standard senior adviser band?

Ms Pitson—In the office of the minister, there are two positions. The first is an EA office manager position, and the personal classification is assistant adviser. The second position is an adviser position and the personal classification is senior adviser 1 (cabinet).

Senator FIFIELD—I think this now comes back to the essence of Senator Ronaldson's question, which is that, given the government staffing committee did not have the benefit of a submission, against which criteria was it judged that these individuals should be paid more? What factors are taken into account in determining at what level someone should be paid above what the substantive position is?

Senator Faulkner—I have outlined that before. There is a process here, which has not existed before. There are few personal classifications granted, which was not the situation under the Howard government. We have a staffing committee.

Senator FIFIELD—I am sure there will be more over time.

Senator Faulkner—That may be true.

Senator FIFIELD—It is a function of longevity of government, I suspect.

Senator Faulkner—But you are aware of the situation as of 1 May 2008, and that is what we are addressing. A government staffing committee meets to consider the situation in relation to each individual case or request for a personal classification from a minister or a parliamentary secretary. If this relates to a minister who serves on the staffing committee—and it is being addressed to me; I do—I do not involve myself in that consideration. A range of material is before the committee, and members of the committee bring to bear their

judgement about the worth and contribution that those individuals can bring if they serve on ministerial staff with an enhanced classification.

Senator FIFIELD—What was the figure that you cited before as the number of personal classification positions which existed at the conclusion of the Howard government? Was it 34 or 35?

Senator Faulkner—I misled the committee. It was not 35; it was 37.

Senator FIFIELD—You are always conservative in your estimates, I know.

Senator Faulkner—But let us be accurate. As of 24 November 2007, the figure was 37. I draw the comparison, and make the point that these decisions are not made lightly—which I would have hoped that the committee would agree is appropriate.

Senator FIFIELD—Indeed, and that goes for the former government. But I would just make the observation that that was after 11½-odd years of government, and I think that is probably a function of the longevity of a government and the changed personal circumstances of a number of staff over that time. You may well, who knows, have the opportunity to see an increase in the number of personal classifications.

Senator Faulkner—I hope you have managed to say that with a straight face!

Senator FIFIELD—I am sure you are hoping to have that experience!

Senator RONALDSON—What determinations, Minister, have been made under the MOP(S) Act since February 2008, and can you list them and what they give effect to?

Senator Faulkner—Yes, we can do that, and I will ask officials. I assume we have got the determination?

Ms Clarke—We will need to take that on notice, but all determinations that affect a class of people made under the MOP(S) Act are in fact published on the MOPS intranet site.

Senator Faulkner—I am sorry, but we do not have them with us. They are published. But if you would like us to take it on notice separately I am happy to do that. Would you like us to take that on notice?

Senator RONALDSON—Yes, please. How many government personal staffers are paid above the range for their classification?

Ms Pitson—As at 1 May 2008, there were three government staff employed at salaries above the specified range for their classification.

Senator RONALDSON—Who makes that decision?

Senator Faulkner—For government ministerial staff it is the same process, the same committee.

Senator RONALDSON—And, again, is that at the request of the responsible minister or the request of the individual staffer?

Senator Faulkner—Yes. But you will appreciate that, in the final analysis, with all these decisions, when I say a government staffing committee might look at these issues and make recommendations, at the end of the day, these are decisions made by the Prime Minister. But, in general, the process with these sorts of matters is that if there is a salary above the range or

a personal classification, these sorts of issues are dealt with by a government staffing committee.

Senator RONALDSON—What criteria do the staffing committee use to look at these matters to make a determination?

Senator Faulkner—The process is as I have outlined. These decisions are made by the Prime Minister. They are not taken lightly and of course can be taken with the benefit of advice from the government staffing committee.

Senator RONALDSON—Dr Watt, I see you are nodding your head.

Senator Faulkner—I am hoping that means he agrees with me!

Dr Watt—I think I was acknowledging Senator Abetz, Senator Ronaldson.

Proceedings suspended from 10.45 am to 11.01 am

Senator FIFIELD—Senator Faulkner, I recall when you were on this side of the table you would on occasion—

Senator Faulkner—I remember those days myself.

Senator FIERRAVANTI-WELLS—Not fondly, Senator Faulkner!

Senator FIFIELD—Actually, I am sure Senator Faulkner does have some fondness for his experiences on this side. But you did on occasion, Senator Faulkner, cite material from websites, including Crikey. I just wondered if I might do the same.

Senator Faulkner—I did quote those things, but, I would have to say, never with a huge amount of confidence. I always put in the qualifiers, or the caveats, first. I suggest you do the same.

Senator FIFIELD—We will just have to suck it and see. I draw your attention to one item in Crikey, which said—I pose this as a question:

Which acting Prime Minister thinks that she is so important that no-one else is allowed to park at 4 Treasury Place—

that being the Commonwealth Parliamentary Offices in Melbourne—

while she is filling in for Rudd? Other Members of Parliament who use 4 Treasury Place regularly or as one-offs have been told by the Department of Finance that there is no parking available while Gillard is acting PM.

I do not expect that you have a personal acquaintance with the parking guidelines in CPOs.

Senator Faulkner—I do not.

Senator FIFIELD—So officials might assist us in whether there has been a change in the guidelines for parking for members and senators who have official business in the city or at 4 Treasury Place.

Senator Faulkner—I am very happy to ask officials to answer that. I will, however, provide a caveat of my own here and remind you that there are additional security arrangements for the Deputy Prime Minister when she is acting as Prime Minister and they can have quite an effect on those sorts of issues, as I know you appreciate. I am not going to

go into the detail of those security arrangements but I think you know that is the case. But, if we can help you on this, we will. I will ask officials if there is any information.

Senator FIFIELD—Thank you.

Senator Faulkner—Mr Miles will help you if he can.

Senator FIFIELD—Thank you. Just in relation to Senator Faulkner's observation, there were no such restrictions when the former Prime Minister was at 4 Treasury Place in relation to members and senators parking.

Senator Faulkner—The former Prime Minister was not a Victorian based Prime Minister; Ms Gillard is. Anyway, Mr Miles can answer that.

CHAIR—We have one question before—

Senator FIERRAVANTI-WELLS—It is a preface in addition to the preface that Senator Fifield said. As a person who parked regularly in Sydney when the Prime Minister was there, there were no restrictions on parking when I parked at the CPO in Sydney.

Senator Faulkner—Well, you have got a very different experience to me, because I have been regularly kicked out of parking spots there.

Senator FIERRAVANTI-WELLS—Perhaps, Mr Miles, in taking that question, you could also encompass in your answer the situation in Sydney, where now we are effectively precluded from parking.

Senator FIFIELD—Perhaps we could deal with Melbourne first. I also have some points to raise in relation to Sydney.

Mr Miles—It does differ from state to state. The situation in Melbourne is that we share the Victorian parliamentary precinct there. There are a limited number of car-parking spaces immediately adjacent to the CPO. They are not all ours. We have an arrangement with the state government where we have access to—I am not sure of the number—about half-a-dozen spaces. From time to time we are able to trade on some goodwill and use more of those spaces. The situation is, when the Deputy Prime Minister acts as the Prime Minister, she has these days a security entourage, a number of cars, which simply means we are not able to guarantee parking for visiting senators and members.

Senator FIFIELD—I was, on two occasions, a tenant of 4 Treasury Place—my electorate office was there for a brief time—so I am well aware of the location and the fact that the roadway in front of the building is a Victorian government road with a Victorian government guard out the front and that there are half-a-dozen-odd places there. In my experience as a building tenant and also as a visiting senator using the parliamentary offices from time to time when I have business there, there never was the experience, when Mr Howard was Prime Minister, that parking was restricted on account of the fact that he was there. I do not know if Ms Gillard has a larger entourage as Acting Prime Minister than the former Prime Minister had, but there were certainly no restrictions on members or senators using the parking bays previously.

Senator Jacinta Collins interjecting—

Mr Miles—Senator, I cannot comment on the relative sizes of the two security entourages. As the minister points out, the fact that Ms Gillard is a Victorian based person may account for the fact that there are more vehicles these days. To say that there is a restriction on parking I think probably does not quite reflect the situation. I think we advise those people who ring to make bookings in the CPO, when we know that there is going to be this issue, that we cannot guarantee spaces. In the event that they are available—in other words, the Deputy Prime Minister is not there for the day and the security entourage is not there—we will of course allow people to park there. It is simply a matter where we have to make sure that there is sufficient space for the security entourage.

Senator FIFIELD—You say it is not a restriction, but it is a restriction because there previously was not that advice from Ministerial and Parliamentary Services that, on days when a Prime Minister or Acting Prime Minister was at 4 Treasury Place, a parking spot could not be guaranteed. So it is a restriction on what previously was the situation. It is a change to that situation.

Dr Watt—I think there is a point of clarification which Ms Mason might like to give you.

Ms Mason—I think there is a difference between prohibition or restrictions and information provided to other tenants of 4 Treasury Place as a courtesy to forewarn them that on some occasions when Ms Gillard is Acting Prime Minister there may be restrictions—or limitations, it is probably more correct to say—on the parking because of the requirements of accompanying security personnel. That is information sometimes provided as a courtesy to other tenants.

Senator FIFIELD—Just taking the point of a Victorian based Acting Prime Minister: there were many occasions when Mr Costello was Acting Prime Minister and there were no such restrictions on members or senators parking there. I do not see what difference being a Victorian based Acting Prime Minister makes, but maybe you can assist me on how Ms Gillard's needs are somehow in excess of those of former Acting Prime Ministers.

Mr Miles—That would be a matter for the Attorney-General's Department, the Protective Security Coordination Centre. But can I offer that there in fact has been quite a change to the CPO generally. We have a higher number of resident ministers in the CPO at the moment, and that in turn would be placing more pressure on the available car parking spots that are there.

Senator FIFIELD—I guess Ms Gillard has extra special needs and more than previous Deputy Prime Ministers.

Senator Faulkner—That is not evidence that was given. I am treating that as commentary or an editorial comment.

Senator JACINTA COLLINS—Mr Miles, could I have some clarification because I have had similar issues with parliamentary offices in the past. I read the guidelines recently, which I think were in place prior to the change of government, and it advises visiting members taking out visiting member suites that parking may be available but, alternatively, it may be restricted, depending upon the availability at the time. Is that recalling it correctly?

Senator FIFIELD—The guidelines—

Senator JACINTA COLLINS—I am actually asking Mr Miles.

Senator Faulkner—Let us ask one of the officials who can provide you with precise information on this.

Mr Miles—In respect of car parking, I think you are referring to a circular that was issued in July of last year.

Senator JACINTA COLLINS—What I am referring to is what I have read recently in the folder about the use of VMOs for parking.

Mr Miles—There was a circular issued in July last year by the then Special Minister of State, and I imagine that what is in the handbook will mimic these sorts of provisions. It says in respect of car parking: ‘Some CPOs have car spaces which are made available to senators and members who book suites or who are on official business in the city. As spaces are limited, priority is given to those senators and members who have booked suites, and a maximum of one car space is provided. Staff do not have access to car parking spaces. It is requested that, if a car parking space is required, this is advised to MOPS at the time of booking.’ So it is a general caution about the availability of car parking spaces.

Senator JACINTA COLLINS—Thank you.

Senator FIFIELD—Has there been any reduction in the number of parking spaces for members and senators at the Sydney Commonwealth Parliamentary Offices since the change of government? Has there been an increase in the number of parking positions provided for ministerial staff?

Mr Miles—My understanding is that we have neither fewer nor more parking spaces available to us as a tenant in that building. If there has been any change in a general availability, again it will relate to the number of permanent residents—

Senator FIFIELD—But there is no change in the policy of access to members or senators with business.

Mr Miles—That is correct.

Senator FIERRAVANTI-WELLS—In relation to Sydney, do you have a similar arrangement or have you discussed a similar arrangement with the New South Wales parliament, which is very close?

Mr Miles—Not to my knowledge.

Senator FIERRAVANTI-WELLS—If you have an arrangement in Victoria, have you thought about looking at arrangements in other areas, particularly when there is a non-sitting period in the New South Wales parliament?

Mr Miles—It is certainly something that we can look at. You are right. I guess you are referring to the fact that parking can be quite restricted there.

Senator FIERRAVANTI-WELLS—Particularly the location of the CPO, which, as you know, is in Phillip Street and, apart from the limitation of parking in and around that area, let alone the expense of parking, a day’s parking in Phillips Street, if you can get it, is very expensive.

Mr Miles—We will follow it up.

Senator Faulkner—There are reciprocal parking arrangements organised at the parliamentary level as opposed to the ministerial and parliamentary services level and, for the payment of a fee, a member of the Commonwealth parliament can park on non-sitting days in Macquarie Street. I can confirm this. I have done it.

Senator FIERRAVANTI-WELLS—Thank you for that information. Thank you, Mr Miles. You will take that on notice and let us know.

Senator RONALDSON—I will put some of these matters on notice. What capital works or alterations have been undertaken at the Commonwealth Parliamentary Offices in Melbourne since 25 November?

Senator Faulkner—Do you want an answer to that now or on notice?

Senator RONALDSON—Is anyone aware of this?

Senator Faulkner—Capital works?

Senator RONALDSON—Or alterations.

Senator Faulkner—Mr Miles will deal with that one for you, Senator.

Mr Miles—I am not aware of anything other than work that was undertaken to ensure that ministerial suites that were vacated were made suitable for new ministers moving in.

Senator RONALDSON—What was required to make that suitable?

Mr Miles—It was generally the standard patch and paint to make good those places where—

Senator RONALDSON—What works were done?

Mr Miles—I do not have those details.

Senator RONALDSON—Was a bathroom put in?

Mr Miles—Not to the best of my knowledge.

Dr Watt—I think Mr Miles said ‘patch and paint’; a bathroom added would be a long way from that.

Senator RONALDSON—So you are not aware of any work being done involving major alterations in the CPO, such as the addition of bathrooms or other things?

Mr Miles—I am not aware of that.

Senator RONALDSON—But you will take it on notice.

Mr Miles—Certainly.

Senator RONALDSON—In a general sense, would you take on notice any capital works or alterations carried out to any Commonwealth parliamentary offices?

Senator Faulkner—In fact, last week I did a very brief inspection of the Melbourne CPO and no such capital works were drawn to my attention. There are issues going to the difficulties of a significant number of ministers who are Melbourne based, as you know, and I suppose some of the ministers probably think it is a bit of a squeeze. They do not ‘probably’ think, they do think it is a bit of squeeze, so I had a look at it firsthand, but I can assure you—

Senator RONALDSON—I am sure none of them are complaining.

Senator Faulkner—Nothing of that nature was raised with me when I did that inspection last week, if that assists you. We will check and confirm it for you on notice.

Senator RONALDSON—In response to question F71, which was on notice, I think from February, we were supplied with a determination made by the Prime Minister to employ senior staff under the MOP(S) Act. Are there any differences in the terms and conditions of employment—excluding salary levels, phones and cars—under the PM's new senior staff certified agreement that are not available to non-senior staff employed under the Commonwealth Members of Parliament Collective Agreement, such as leave arrangements? Are there any differences under that certified agreement that are not relevant to others?

Ms Clarke—To analyse the difference between the collective agreement for staff level-adviser level and the determination made for staff above the adviser level, we would have to take that on notice. The only thing that stands out as being a difference between the two is the availability of a car for senior advisers that is not available—

Senator RONALDSON—I am happy for that to be taken on notice.

Ms Mason—Senator, I think you referred to a collective agreement for senior staff. There is no collective agreement for senior staff. The terms and conditions for those staff are actually covered by a determination made by the Prime Minister last year, under the MOP(S) Act.

Senator RONALDSON—That is a document entitled 'Terms and conditions of employment', isn't it, for employees above the level of adviser?

Ms Clarke—That is right. It was tabled in answer to a question at last estimates. I think it was F71.

Senator RONALDSON—I acknowledge that it is a matter of definition as to whether it is a certified agreement or an agreement. If you could provide me with that information with or without those words, I would be very grateful.

Senator Faulkner—We will do that, Senator.

Senator RONALDSON—How many government personnel have filled out a register of private interests?

Senator Faulkner—This information is not held by Ministerial and Parliamentary Services. Those are confidential statements between individual staff and their employing minister.

Senator RONALDSON—On what basis would someone be required to fill out a register of private interests?

Senator Faulkner—All staff of ministers and parliamentary secretaries are required to fill out such a declaration of interests, as I think it is described.

Senator RONALDSON—Will you ascertain for the committee whether there are, as of today's date, any staff—and not names, obviously, but numbers—in ministerial or parliamentary secretary's offices who should have filled out the register but have not.

Senator Faulkner—My expectation is that this would have occurred. I am not really sure. It is a matter for individual ministers. It is very difficult for the Department of Finance and Deregulation to do this.

Ms Mason—It is not a question that we would propose to take on notice, for the reason that I do not think that we would be able to provide you with an answer because we do not hold the information.

Senator RONALDSON—Leaving that to one side—and I will take that at face value—in your other position as Cabinet Secretary, are you happy to make those inquiries for the committee and advise us in due course?

Senator Faulkner—What I can say to you is that the full ministry in its first meeting after the election of the Rudd government did make this a requirement of all ministers and parliamentary secretaries. I can assure that this is a requirement that ministers and parliamentary secretaries are well apprised of and that—

Senator RONALDSON—Is Prime Minister Rudd one of those ministers?

Senator Faulkner—a decision not only has been made, but was made very early in the life of the government.

Senator RONALDSON—What has been done to ensure or ascertain that this indeed has occurred? Has the Prime Minister written to them? Have you written to them?

Senator Faulkner—There is a minute of the full ministry which parliamentary secretaries and ministers have acted upon.

Senator KEMP—That is the question, isn't it?

Senator RONALDSON—It's an honour system!

Senator KEMP—We understand Senator Faulkner's comments about the importance of this, and he is quite right. No-one is arguing about that. I believe Senator Faulkner when he indicates that this has been stressed to each and every minister on appropriate occasions. What we really want to do is to find out whether this has occurred. I think the question that my colleague asked is whether, at this particular date, there are any ministerial staff who have not filed a register of interest, or whatever it is called, and could we have the names of those ministerial staff?

Senator Faulkner—I stress this with you: this is not a matter for this department. But I do say very seriously to you that each minister and each parliamentary secretary is responsible for the monitoring of compliance with their own individual staff. For example, I can confirm to you in relation to my own staff, as a minister at the table, that all those declarations have been made. You would need to ask—

Senator KEMP—We accept that.

Senator RONALDSON—What is the process for ascertaining that this cabinet minute has been adhered to?

Senator KEMP—We are asking you to—

Senator Faulkner—I have explained it to you. The compliance is the responsibility of ministers and parliamentary secretaries. There is a ministry minute to this effect, and that has been reinforced by the Prime Minister at the first meeting of the ministry of the Rudd government.

Senator RONALDSON—I can vividly remember being visited by Max Moore-Wilton in relation to register of members' interests. Does the secretary of the department go around and see the ministers and parliamentary secretaries to ascertain whether they actually have obtained this information?

Senator Faulkner—The Prime Minister also wrote to all—

Senator RONALDSON—Answer the question, Minister. I have asked you a question.

Senator Faulkner—The Prime Minister also wrote to all ministers and parliamentary secretaries late last year—just before Christmas; I can get a precise date of the letter for you if you need it—to ensure that ministers and parliamentary secretaries had complied with this requirement.

Senator RONALDSON—We understand what the requirements are. What we want to know is whether they have been fulfilled. So far, you have not given us any indication of a process that would determine whether they have or have not been fulfilled.

Senator Faulkner—The process is that each minister and parliamentary secretary ensures that this requirement is being complied with.

Senator RONALDSON—How do you know that?

Senator Faulkner—That is an obligation that is placed on each of them. Are you seriously suggesting that I personally check every private pecuniary interest declaration?

Senator RONALDSON—I am not suggesting that at all. I am suggesting that you should check with these ministers and ascertain from them that they have actually adhered to the directives of the minute. And you have not done so, have you?

Senator Faulkner—It is not an obligation. The obligation that is placed on all ministers and parliamentary secretaries—and yes, I have fulfilled my obligation in this regard—

Senator RONALDSON—I know you have. We accept that. What we do not know is whether the rest of your colleagues have done so, and there is no process in place for that to be ascertained.

Senator Faulkner—Yes, there is a process in place. The Prime Minister has required this, the full ministry has required it, the Prime Minister has written to all his colleagues indicating that this is a requirement to be fulfilled and chiefs of staff and ministers are well apprised of responsibilities in these areas.

Senator RONALDSON—Minister, I am trying to work out whether, after six months, you are still finding your feet as a government, or whether you just do not care about what I would have thought were quite obvious corporate governance requirements to ensure that what people have been asked to do is actually being done. You cannot even answer a simple question as to whether people have fulfilled the requirements of this cabinet minute. There is no process in place to determine it, and you are just assuming that because people have been

told to do it they have done it. You have not written to them and the Prime Minister has not written to them. Is it sloppiness or do you not care?

Senator Faulkner—I am sorry, but the Prime Minister has written to them, as I have outlined to you. I have also outlined to you that one of the first decisions of the government was in relation to these declarations of interests. I have said to you that the Prime Minister has written to all ministers and parliamentary secretaries about this. I can also assure you that all ministers and chiefs of staff are well apprised of obligations in this regard. At the end of the day, as you understand, the responsibility lies with the individual minister and, as you know, the responsibility for ensuring compliance in relation to these matters also lies with each individual minister and parliamentary secretary.

Senator KEMP—So you cannot assure this committee that this direction has been fully complied with by all ministers and their staff?

Senator Faulkner—What I can assure the committee of is what I have done. I have outlined—

Senator KEMP—I know, but that is not the question. The question is whether you can assure the committee that this instruction and direction have been carried out and all staff have complied. That is what you cannot assure this committee. Is that right? You can assure in relation to yourself?

Senator Faulkner—Of course I can in relation to myself, and I can also assure the committee of the efforts that have been undertaken, which I have outlined to the committee—

Senator KEMP—That is right, but you cannot assure us that—

Senator Faulkner—to ensure that all staff are aware of their obligations—

Senator KEMP—We know that.

Senator Faulkner—and all ministers are aware of their obligations in this regard.

Senator KEMP—We know that, but—

Senator Faulkner—They are, Senator; I can assure you that they are well aware.

Senator BRANDIS—This does not sound to me like the culture of disclosure—

CHAIR—Senator Brandis, Senator Murray has the call.

Senator RONALDSON—No, I have not finished yet, sorry. I have two more questions, then I am finished.

Senator MURRAY—I am happy for them to conclude their questions.

CHAIR—We are finishing up in an hour; we had an agreement. Two more questions, then Senator Murray and then over to you, Senator Fierravanti-Wells. We will come back to you when Senator Murray is finished.

Senator KEMP—Before I conclude mine, can I ask Senator Faulkner this: will he contact all his colleagues and seek an assurance that all their staff have complied with this direction, as of this day?

Senator Faulkner—I am more than happy to.

Senator RONALDSON—I just want to go to the Caucus Committee Support and Training Unit and question F113, which was on notice, and we had a response back. By the way, who is going to replace Senator Ray on the CCSTU?

Senator Faulkner—He, as you know, chaired the supervisory panel, and I am looking at that issue at the moment. Mr Bevis, in the House of Representatives, and Senator Lundy are ongoing members of that panel, and I plan, in the next few days, to write to the Prime Minister about a replacement for Senator Ray. Obviously, this is something that—

Senator KEMP—I think it is about time Kate got the job.

Senator RONALDSON—Yes. Mind you, Arch has been overlooked too.

Senator Faulkner—I can assure you that Senator Lundy will remain a member of that supervisory panel, and I will pass on to her your best wishes in that regard.

Senator RONALDSON—One of the roles of the CCSTU is to oversight the caucus room refurbishment program. Can you tell us what that is, please?

Senator Faulkner—It is a very minor role that I would have to admit to you has been ongoing for very many years. In fact, it is something that I had kick-started before the turn of the last century, I believe.

Senator RONALDSON—So what are the refurbishments? The caucus room is the party room, I take it.

Senator Faulkner—It is the party room. For a very long time, the federal parliamentary Labor Party has had an ad hoc committee dealing with this issue.

Senator RONALDSON—What is the program?

Senator Faulkner—That is a matter for the caucus, but I think it would be fair to say to you that—

Senator RONALDSON—It is not a matter for the caucus at all.

Senator Faulkner—It is a matter for the caucus.

Senator RONALDSON—I am asking you whether there are any costs associated with this. What is—

Senator Faulkner—None.

Senator RONALDSON—None?

Senator Faulkner—None to be borne by the taxpayer, I can assure you. You might be aware that historically I have had discussions with senior members of the coalition parties about whether it is the view of others in the parliament that it might be of long-term benefit to have the government and non-government party rooms in fact become, if you like, permanent Labor and coalition party rooms. I have spoken to some senior members of your party in the past about this, and I think generally there is a view that this might be a sensible thing to do.

Senator RONALDSON—Okay. So there are no costs.

Senator Faulkner—You asked me. There are certainly no costs involved.

Senator RONALDSON—Thank you.

Senator Faulkner—But, if we are able to at some point, we would like to make it an even more pleasant environment than it is.

Senator MURRAY—Ms Mason, I would like to just briefly revisit the certification of management accounts issue. You recall that in the February estimates I put a question to you, which was answered on 1 May 2008. The reference is question F7. I thank you for the answer. You will also recall that we deliberately advocated the delay in the response to that question to allow laggards, if you like, to catch up. So the question is: between asking the question in February and the provision of the answer on 1 May, did large numbers of members and senators clean up their 2006-07 certifications which were overdue?

Ms Hughes—Yes. We took the hint that you provided us and we wrote out to those that had not submitted their certifications, and we certainly got a very significant response to that.

Senator MURRAY—You might not have the numbers with you, but would it be scores of laggards caught up?

Ms Hughes—I do not have the numbers with me. Because of the election, we did have, I think, quite a low certification rate for some of that period, so I think it probably was lower than it normally would have been.

Senator MURRAY—That is reasonable. My fear is, of course, that without this pressure it would not occur, because failure to comply with the certification is not reported in any annual report or anywhere other than in estimates. That is right, isn't it?

Ms Mason—I think it is correct to say that your questions over a lengthy period of time about this matter have assisted in improving compliance.

Senator MURRAY—Ms Mason, the answer indicated that there were 15 members and senators as at 1 May who had not certified their management accounts for a particular month or the end of the financial year management report in relation to 2006-07. Of those 15, a brief summary is that three are ministers, three are former ministers, one is a former parliamentary secretary and there are eight other members and senators. There are only two I would regard as recalcitrant. They have 13 failures to certify for that year 2006-07. Both are coalition members. One is a former minister. There is just one person with five outstanding, a former coalition minister; and there were two with four outstanding. My concern is that with my departure this area of focus might diminish somewhat. I have always been alarmed by ministers, members and senators who talk loudly about accountability in the public sector and for Australians at large and do not practise it themselves. Do you have any plans to regularly provide the estimates committee with a list of those who are outstanding in this area?

Ms Mason—We do not have any plans in that regard, although we are always happy to respond to questions.

Senator FIERRAVANTI-WELLS—I would like to ask some questions about responsibilities in the Prime Minister's office. Yesterday, Minister, you were shown a document which was basically staff in the Prime Minister's office. There appear to be on his personal staff a number of positions: for example, he has a private secretary, an assistant adviser, an assistant private secretary and then this 'travelling assistant'. Could you tell me what the roles are of the private secretary?

Senator Faulkner—I would need to seek advice on that. I indicated yesterday that the terminology that you use in relation to ‘travelling assistant’ is wrong; it is an ‘executive assistant’, but I suspect we have been through that. I do not intend to go through it again. How many staff are you asking for roles for?

Senator FIERRAVANTI-WELLS—Yesterday, you told us that the role of the travelling assistant—

Senator Faulkner—Yes, I did that because of the—

Senator FIERRAVANTI-WELLS—that we referred to as Jeeves—

Senator Faulkner—That’s right—the accusations, the false accusations, that were made here.

Senator FIERRAVANTI-WELLS—I do not want to name the person so we shall just refer to them as that name. I am interested in it because you said this person—

Senator Faulkner—With all due respect—

Senator FIERRAVANTI-WELLS—Senator Faulkner, can I please just ask my question? My question is: you said this person’s role was predominantly, or to that effect, dealing with paperwork. What I would like to understand is how the Prime Minister’s paperwork works in his office. He seems to have—

Senator Faulkner—Really? I suggest you should have asked that during the estimates examination of the Department of the Prime Minister and Cabinet, not the Department of Finance and Deregulation.

Senator FIERRAVANTI-WELLS—I am asking because these people I refer to—

Senator Faulkner—Every senator around the table knows that. Let us not start breaking down all the precedents about how we deal with these issues. To assist you—

Senator FIERRAVANTI-WELLS—These people are employed under MOP(S), aren’t they?

Senator Faulkner—Yes. They are employed under the MOP(S) Act, but—

Senator FIERRAVANTI-WELLS—They are. Right.

Senator Faulkner—questions in relation to the operation of the Prime Minister’s office should be dealt with when the Department of the Prime Minister and Cabinet is at the table, regardless of the note that Senator Brandis sent to you. He knows that. I think every senator round the table knows that this is the case. But to assist you, Senator, I am more than happy, if you have got additional questions that you would like to place on notice to the Department of the Prime Minister and Cabinet, to facilitate them. But I think you would understand—and I think, respectfully, Chair, other senators would understand—that it is not acceptable and it would be a precedent that I do not think would help any members of the committee in the long term for us to start dealing with issues that relate to a department of which the examination of the estimates has concluded. I am not going to be unreasonable about this, Senator, but I am sure you know that is the case. I am more than happy to facilitate any questions you want to put on notice about this, but I will not, and nor would you expect me to, go to those sorts of issues when Ministerial and Parliamentary Services in the Department of

Finance and Deregulation is at the table. I think you know that. I acknowledge that it is a good try—full marks for a good try—but I cannot do it.

Senator FIERRAVANTI-WELLS—Minister, thank you for the patronising comment.

Senator Faulkner—That is all right.

Senator FIERRAVANTI-WELLS—These people are employed under the Members of Parliament (Staff) Act, aren't they?

Senator Faulkner—Yes, they are.

Senator FIERRAVANTI-WELLS—There are duties and responsibilities attached to each of those positions—is that the situation?

Senator Faulkner—They are employed by the Prime Minister under the Members of Parliament (Staff) Act.

Senator FIERRAVANTI-WELLS—And their classification carries duties and responsibilities—is that the answer to that?

Senator Faulkner—They all have a classification.

Senator FIERRAVANTI-WELLS—With that classification goes a certain—

Senator Faulkner—That is a matter for the employing minister or, in the case of electorate staff, the employing member or senator—not a matter for this committee.

Senator FIERRAVANTI-WELLS—Thank you. So the question I asked you is: yesterday, when we were asking what the responsibility was of this person, you said to me that this person's responsibilities were to deal with paper. My concern is that there are a lot of people in the Prime Minister's office who deal with paper, and I am particularly interested in how this is delineated. What are the roles and responsibilities of each of these positions? I ask about these positions: there are four people who are delineated as executive assistant, assistant personal secretary, senior personal secretary and private secretary to the Prime Minister.

Senator Faulkner—That is, as I said, a good try. You know—

Senator FIERRAVANTI-WELLS—But do you know the answer to the question?

Senator Faulkner—The question is not appropriate to ask of this department. We have dealt with, yesterday, this issue, and we have examined the estimates of the Department of the Prime Minister and Cabinet—

Senator FIERRAVANTI-WELLS—But do you know? If you do not know, then just tell me and I will—

Senator Faulkner—It is not an issue of whether I know—

Senator FIERRAVANTI-WELLS—Are you saying that this is not a question that these officials know the answer to?

Senator Faulkner—Senator, the officials do not know, and will not know, the answers to these questions, and they can confirm that for you if you want—and I will let them speak for themselves in this. I think it is probably better for you to hear that evidence from them than from me, in one sense. If they are happy to comment, the Secretary or Ms Mason can, if they

see fit. And I certainly will not, in any way, prevent them from doing so. But I do think that senators around the table are aware of what the responsibilities are of ministerial and parliamentary services in the department of finance. These questions do not go and are not relevant to ministerial and parliamentary services. They are questions that should have been or should be directed to the Department of the Prime Minister and Cabinet. What I can do—and I think this is reasonable—is that I will certainly take the questions on notice for you. I have said that. But that is the situation we find ourselves in. That is a ministerial point of view, and you may or may not accept what I have said. If the officials care to comment—because I do not want to put words in the mouths of officials when I have indicated to a senator I believe the line of questioning is inappropriate during the examination—

CHAIR—Senator Brandis?

Senator BRANDIS—Madam Chair, a point of order: it is not for the minister at the table, or for an official at the table, for that matter, to decide what is and is not relevant. It is for the committee to decide what is and is not relevant. And, in particular, it is for you to decide what is and is not relevant. I have just asked to look at a copy of the opening statement you read this morning. I was not in the room, but I assume that it was the standard opening statement which recites the Senate's definition of relevance, and includes the standard words that no minister or official has a discretion to withhold relevant information. And as all senators, most particularly Senator Faulkner, would know, the definition of relevance that has been applied by these estimates committees has always been a wide one. Senator Fierravanti-Wells—

Senator Faulkner—But not outside the department, Senator.

Senator BRANDIS—Excuse me, Senator Faulkner, I am speaking. Senator Fierravanti-Wells has established that the officers about whom these questions are directed are officers employed under the MOP(S) Act. This is the area of the estimates specifically, as set out in the program, which deals with MOP(S) Act matters. It is utterly beside the point that those officers may be employed in whatever department those officers may be employed, so long as they are MOP(S) Act staff, and this is the MOP(S) Act section of the estimates. So on any definition of relevance Senator Fierravanti-Wells's questions are immediately relevant.

Might I finally point out, though I am trying to avoid being political about this, that Senator Faulkner did say as recently as last month that the approach of the new government to estimates would be that, where there was any area of doubt or uncertainty, the matter would be resolved in favour of disclosure rather than in favour of nondisclosure. So, if he is of the view that this is a doubtful area—which I would suggest to you, Senator Faulkner, is not a rationally maintainable position—unless Senator Faulkner is going to reveal himself to be a hypocrite, on his own test the question should be answered.

CHAIR—I take your point of order on relevance but I cannot direct the minister on how to respond. Minister, do you have anything further to add?

Senator Faulkner—Yes; I can respond to what Senator Brandis raises. I would be surprised if Senator Brandis did not know that the matters that Senator Fierravanti-Wells has raised are not matters for Ministerial and Parliamentary Services in the department of finance. They are matters that should have been dealt with—and in fact many of them were dealt

with—when the Department of the Prime Minister and Cabinet was having its estimates examined.

Senator BRANDIS—That is complete nonsense. This is not the estimates about Ministerial and Parliamentary Services in the Department of Finance and Deregulation. This is the only area of the estimates in this two-week period which deals specifically with ministerial and parliamentary services at large, and you know it.

Senator FIERRAVANTI-WELLS—Can I just take it, to wrap this up, Minister, that you do not want to answer the question or you cannot answer the question? That is basically what you are saying—you do not want to answer the question.

CHAIR—He has answered.

Senator Faulkner—I am not saying—

Senator FIERRAVANTI-WELLS—Are you seriously us telling that, in the very section which—

CHAIR—The minister is trying to respond to the question that is before us.

Senator FIERRAVANTI-WELLS—I am making a point here.

CHAIR—I am sorry, Senator Fierravanti-Wells; I am trying to keep things flowing through. Let him respond.

Senator FIERRAVANTI-WELLS—I am asking questions about staff that are employed under MAPS.

Senator Faulkner—I have been interrupted by everyone. It is farcical.

Senator MURRAY—I have a point of order, Madam Chair. I have listened to Senator Brandis carefully over many committees when he makes points of order and I have listened to him from the chair. One thing he has strongly emphasised, which I would urge you to strongly emphasise, is that when a question is asked the official or the minister is entitled to answer without interruption—I am almost exactly quoting Senator Brandis, I think—and then it is the time to ask subsequent questions. Frankly, what is occurring is disorderly, it gets us nowhere and I would urge you to allow the minister to respond and then Senator Fierravanti-Wells to continue her questioning.

CHAIR—Thank you, Senator Murray. I do remind the committee that if you ask a question then we do need to be able to hear the response. Minister.

Senator RONALDSON—I have a point of order, Madam Chair. On Monday there was a clear agreement between the minister and this committee that, if there was a crossover of some MOPS matters and some matters that related to our discussions—in fact, if I recollect, we were talking about some security clearance matters and some other cabinet documents et cetera—there would be a crossover discussion of matters such as the matters that have been raised by Senator Fierravanti-Wells this morning and the questions would be taken by the minister.

CHAIR—Minister, you have the call to respond to the question before you.

Senator Faulkner—Thank you very much, Chair. I have listened to all those points. I repeat, first of all, the obvious: all members who have been members of this committee for some time know that what I have suggested to Senator Fierravanti-Wells is right—everyone knows that there have never been questions answered at this committee in relation to the roles and responsibilities of MOPS staff who work for ministers in portfolios other than the department of finance.

Senator FIERRAVANTI-WELLS—Perhaps, Senator Faulkner, there was not a need in the past.

Senator BRANDIS—I do not know about that, Senator Faulkner; I remember you asking such questions in this very room.

CHAIR—Senator Fierravanti-Wells, do you have another question?

Senator Faulkner—I have not even—

CHAIR—You have not finished? Sorry, Minister.

Senator Faulkner—I am just trying to deal with this. There is no doubt these are matters for the Department of Prime Minister and Cabinet. They go to internal staff arrangements in the Prime Minister's office, which I did yesterday at the table endeavour to respond to wherever I could. I have indicated to Senator Fierravanti-Wells that I am more than happy to take a question on notice in relation to these matters so she can be provided with an answer.

In relation to the other point, that Senator Ronaldson makes, on Monday I suggested to him that he might care to raise the issue of security clearances at this committee today, while MAPS were at the table. I indicated to him that I had tasked Ministerial and Parliamentary Services to prepare updated statistics on security clearances, which they have done and which can be provided to the committee if the committee wishes to have them. I think that is an appropriate and cooperative response to the committee.

I know that the committee members know that you do not deal with these matters in relation to prime ministerial staff at these estimates. I would be amazed if experienced senators like Senator Murray and Senator Brandis did not know that too and did not know the precedents that relate to the examination of the estimates of these departments.

However, in relation to the question that Senator Fierravanti-Wells has asked about the roles and responsibilities of three members of staff in the Prime Minister's office, I have said I will take it on notice. I do not have that information available to me. I have, however, corrected the nomenclature in relation to one of those positions, which I must say I did yesterday at the committee also.

Senator FIERRAVANTI-WELLS—I want to ask about the position that is described as 'Travel Assistant to the Prime Minister'. We will not name the person but we will call him 'Jeeves'. He is employed under the Members of Parliament (Staff) Act—yes?

Senator Faulkner—That is true.

Senator FIERRAVANTI-WELLS—And he is paid for under MOP(S)?

Senator Faulkner—He is employed under MOP(S) and it is true that, to use your terminology, he is paid for by MAPS.

Senator FIERRAVANTI-WELLS—And where does Jeeves work?

Senator Faulkner—There is no such person as Jeeves.

Senator FIERRAVANTI-WELLS—I do not want to name the person, so I am just using this as a—

Senator MOORE—Chair—

Senator Faulkner—I indicated yesterday—

CHAIR—There is a point of order before the chair. Senator Moore.

Senator FIERRAVANTI-WELLS—Where does the travel assistant work?

CHAIR—There is a point of order before the chair.

Senator FIERRAVANTI-WELLS—Well, I withdraw that and—

CHAIR—There is a point of order before the chair!

Senator FIERRAVANTI-WELLS—Do not waste time—

Senator JACINTA COLLINS—You have not heard the point of order yet.

CHAIR—Senator Moore has the call.

Senator MOORE—It could well be that Senator Fierravanti-Wells has responded. I just want to say that I find the term ‘Jeeves’ offensive and patronising. If there is a point being made about a person or a position, talk about the position but do not use that name.

Senator FIERRAVANTI-WELLS—I will refer to the ‘travelling assistant’ perhaps.

Senator BRANDIS—Labor Party people are so humourless, aren’t you? You are so humourless.

Senator FIERRAVANTI-WELLS—So where does the travelling assistant work?

Senator RONALDSON—I presume ‘manservant’ is out too, because of political correctness.

Senator FIERRAVANTI-WELLS—That is right.

Senator RONALDSON—And don’t go near ‘footman’!

Senator FIERRAVANTI-WELLS—Don’t go near ‘footman’!

Senator Faulkner—Can I answer the question?

Senator FIERRAVANTI-WELLS—Yes. Where does he work?

Senator Faulkner—You are referring, of course—we all heard the evidence before this committee yesterday—to an executive assistant in the Prime Minister’s office.

Senator FIERRAVANTI-WELLS—But, Minister, you—

CHAIR—Excuse me, Senator Fierravanti-Wells, can I remind you that there is a question before the minister, the minister is trying to respond—

Senator FIERRAVANTI-WELLS—I am using—

CHAIR—and I am finding it very difficult to hear the answer.

Senator FIERRAVANTI-WELLS—I am using the document that is headed ‘Prime Minister’s office staff list—

CHAIR—The minister has the call!

Senator FIERRAVANTI-WELLS—updated—

CHAIR—The minister has the call, Senator! I remind you that there is a question before the chair and I am waiting to hear the response, as I would have thought you would be.

Senator Faulkner—I said yesterday that, in my view, the references to this staff member at this committee were very offensive to the staff member concerned particularly—probably also offensive to many other executive assistants in government and people who undertake similar functions throughout the community. Having said that, I did, when the estimates of the Department of the Prime Minister and Cabinet were being examined, indicate in relation to that executive assistant in the PMO what those functions were. I cannot add to that. That is the information—

Senator FIERRAVANTI-WELLS—But yesterday you told me that the travelling assistant deals with the Prime Minister’s papers. This document in front of me, which you were shown yesterday, refers to him as a travelling assistant. Given that description of him, can you just tell me: does he always travel with the Prime Minister? You obviously have details of his travel. Because he is employed under MAPS, you must have records of this person’s travel.

Senator Faulkner—I outlined the role of the executive assistant yesterday. You know as well as I do—and I would have thought that experienced senators at the committee would know—that this—

Senator FIERRAVANTI-WELLS—Don’t patronise me. I have asked a simple question—

CHAIR—Can I remind you, Senator Fierravanti-Wells, that I am quite happy to suspend the hearings if there is not orderly conduct in the way you ask the questions. I am trying to speak, Senator Fierravanti-Wells. I think I have been very patient, and I do not want to stifle debate, but I personally have some questions I am waiting to ask within a limited amount of time, and I find it very confusing to follow the issue when questions are put before the panel and we are not able to listen to the answers. There is a question before the chair—and I do appreciate the excitement that you have in wanting to drill down on this issue—

Senator FIERRAVANTI-WELLS—You are patronising me as well, Chair.

CHAIR—but I would also like the opportunity for the minister to be able to respond. If you would prefer that we suspend and go into a private meeting, I am quite happy to do that.

Senator FIERRAVANTI-WELLS—I am just asking: can MAPS table—

CHAIR—You have put the question to the minister, and I would appreciate if he was able to respond, and then you can ask another question.

Senator RONALDSON—Ask him to make his answer short.

CHAIR—I cannot direct the minister on how to respond.

Senator JACINTA COLLINS—Perhaps if the questions were a bit shorter it might be helpful too.

CHAIR—Minister.

Senator Faulkner—I have actually been unable to complete any of my answers in relation to this matter. I have explained to the committee that these are not matters properly dealt with here. Yesterday, I did say what the executive assistant's role is, and I cannot really add to that evidence. I would commend that to the committee.

Senator FIERRAVANTI-WELLS—Mr Miles, do you have travel documents pertaining to the travelling assistant to the Prime Minister—yes or no?

Senator Faulkner—Senator, with respect, you cannot expect an official to respond to your question in that way. The official may care—

Senator Fierravanti-Wells interjecting—

Senator Faulkner—These are not necessarily matters for yes or no answers. If I ever asked you a question, Senator Brandis, and said, 'Here is the question—yes or no?' you would never so respond. By all means—

Senator BRANDIS—It is appropriate. It is a simple question: does somebody have a document or not?

Senator Faulkner—But it may not be appropriate, and it is not a matter for Senator Fierravanti-Wells to determine.

Senator FIERRAVANTI-WELLS—Do you have travel documents relating to the travel assistant to the Prime Minister that demonstrate where and how much he travelled with the Prime Minister since he commenced his employment?

Senator RONALDSON—Yes or no?

Senator FIERRAVANTI-WELLS—Yes or no? It's as simple as that.

Ms Mason—We would probably hold documents that would partially answer your question. Certainly, Ministerial and Parliamentary Services is involved in the processing of accounts related to travel undertaken by ministers and staff engaged under the Members of Parliament (Staff) Act. There are sometimes delays between when the travel is undertaken and when that information becomes available to us. Also, I might add that the information we get is not necessarily attributable to a particular individual. It may be accounts that are rolled up for the travelling party. We would potentially be able to partially answer your question, but not necessarily to attribute a particular amount of money to all aspects of travel by a particular staff member.

Senator RONALDSON—If that particular person was part of a bundle, would you be able to include that in the information that the senators requested, even if it is not amounts? The obvious answer to that is: yes, of course, you must be able to.

Ms Mason—Ms Hughes should be able to assist with that question.

Ms Hughes—Our travel records are such that we are able to attribute travel to an individual. The only occasion when we will not will be if the person has travelled on a special purpose aircraft. They are operated and funded by Defence.

Senator FIERRAVANTI-WELLS—So for the component of Mr Rudd's recent overseas trip, for example, if the travel assistant travelled with him, which I have no doubt he did, I will have to ask that question of Defence?

Ms Hughes—If the special purpose aircraft were used for the flights, yes.

Senator FIERRAVANTI-WELLS—Do you have records of when the travelling assistant commenced employment with the Prime Minister?

Ms Hughes—We do not have that with us.

Senator FIERRAVANTI-WELLS—No?

Ms Mason—We do hold that information, but we do not have it with us.

Senator FIERRAVANTI-WELLS—Can you also tell me, given the potential nature, if this person resides at the Lodge from time to time? Does he conduct some of his MAPS related activities at the Lodge?

Senator Faulkner—That is not a matter for this committee. I thought that question may well have been asked yesterday—

Senator FORSHAW—I think it was.

Senator Faulkner—I thought it was, but when the official establishments were being dealt with—

Senator BRANDIS—Any question relating to the discharge of MAPS related responsibilities by an officer is a matter for this estimates committee under the definition of relevance stated by the chair. Your attempt to avoid answering the questions is intellectually dishonest.

Senator Faulkner—What I said earlier is right. The question of roles and responsibilities of staff members in the Prime Minister's office is not a matter for this committee, and it is not a matter for this committee when the Department of Finance and Deregulation is being examined. The questions that have been asked by Senator Fierravanti-Wells about records held by the department in relation to travel of certain members of ministerial staff are matters for this committee. Just so that we are absolutely clear, that is information that I believe was provided yesterday when PM&C was before the committee in relation to the executive assistant. I repeat: I ask senators to respectfully use the correct title of staff members. The word 'respect' has been bandied around a fair bit at this committee. Well, let's be respectful in relation to that. Of course the executive assistant does not reside at the Lodge.

Senator FIERRAVANTI-WELLS—With respect, I am quoting from a document that has obviously come out of the Prime Minister's office. It says 'Prime Minister's office staff list'. So if you are talking about respect—

Senator Faulkner—I do not know the status of the document at all.

Senator FIERRAVANTI-WELLS—It was shown to you yesterday.

Senator Faulkner—I know that. I know it was.

Senator FIERRAVANTI-WELLS—If the Prime Minister's office is not happy with 'travelling assistant to the Prime Minister' on their own staff list, perhaps they might change it. Ms Hughes, can I just make it very clear—

Senator Faulkner—I am suggesting to you that you use the correct title.

Senator FIERRAVANTI-WELLS—I am using the title that is obviously 'travelling assistant'. That is on a document that is entitled 'Prime Minister's office staff list as at 18 March 2008'. If the Prime Minister's office is not happy with it, maybe they ought to go ahead and change it. Don't talk to me about respect! Ms Hughes, can I just—

Senator Faulkner—Senator, the staff member concerned is an executive assistant. We went through this yesterday—

Senator FIERRAVANTI-WELLS—I know that.

Senator Faulkner—He is an executive assistant.

Senator FIERRAVANTI-WELLS—But that is not—

Senator Faulkner—I went through yesterday—

Senator Fierravanti-Wells interjecting—

Senator Faulkner—I went through yesterday what this gentleman's—

Senator FIERRAVANTI-WELLS—Senator Faulkner, this is what it says—

CHAIR—Senator, the minister is responding.

Senator FIERRAVANTI-WELLS—It was shown to you yesterday. It says 'Prime Minister's office staff list updated 18 March 2008'. I did not invent this document. It has come out of the Prime Minister's office. So, if you have got a problem, you go and talk to the Prime Minister's office about how they describe their own staff. Don't have a go at me about it.

Senator Faulkner—Senator, I am explaining to you—

CHAIR—Senator, the minister is trying to respond.

Senator Faulkner—Can I just respond. I am explaining to you, Senator, that the staff member is an executive assistant. I said this to the committee yesterday—

Senator Fierravanti-Wells interjecting—

CHAIR—Excuse me, Senator Fierravanti-Wells. Can I just remind you that the minister is trying to respond. If we are going to proceed—

Senator BRANDIS—No, he is not; he is trying to stonewall. It is obvious to everybody in the room.

Senator Fierravanti-Wells interjecting—

CHAIR—Senator Brandis, this committee has—

Senator FIERRAVANTI-WELLS—If the Prime Minister's office was worried, and if Senator Faulkner—

CHAIR—Senator Fierravanti-Wells, I am trying to speak and I would appreciate the courtesy that I am entitled to as chair and that I have received up until now. Now, the minister is trying to respond.

Senator Faulkner—I explained to the committee yesterday and I have explained today that this person is an executive assistant. I suggested to the committee yesterday—and I can only ask the senators to acknowledge this—that the staffer concerned has the status of an executive assistant. That is what he is. Yesterday I explained the role to the committee. You are now asking about the staff member's travel. That is fine, Senator; by all means, ask about it, but I am asking you to be—

CHAIR—Senator Faulkner, there is a point of order before the chair. Senator Ronaldson. We are really progressing very well!

Senator RONALDSON—Madam Chair, the minister was shown this list yesterday. I made that available to the minister as a matter of courtesy. That quite clearly indicates that that the staffer is a travel assistant, and the minister has not at any stage attempted to say that document is incorrect. Quite clearly, as Senator Fierravanti-Wells has said, that is the official title of this particular person—which has not been refuted. Nor has the integrity of that document been refuted by the minister.

CHAIR—I do not believe the minister has concluded.

Senator Faulkner—I have made clear what the status is, and the appropriate terminology which is not offensive to any of the individuals involved is 'executive assistant'. But I dealt with this yesterday. I am dealing with it again now. I have made this clear. All I can do is request that senators use the appropriate terminology.

Senator FIERRAVANTI-WELLS—Senator Faulkner, if the Prime Minister's office was concerned about the proper titles being used, this list—which actually describes the various areas of interest and properly, I think, reflects what these people actually do in the office—would reflect the same information as the Parliament of Australia Occupants Search website. If I do an occupants search, yes, they are referred to as an executive assistant. But for ease of reference, and that is clearly what they have done, this document reflects, for example, what the industry, broadband, housing, transport, infrastructure adviser does, and refers to a particular name. That is the object of this document.

Senator RONALDSON—Exactly.

Senator FIERRAVANTI-WELLS—The object of this document is to advise and inform the person who is reading it what that person does in the Prime Minister's office. If I pick up a document that shows me Mr Epstein is the chief of staff, I know he is the chief of staff. So, when I see Jeeves—without naming the person—is the travel assistant to the Prime Minister, I know he is the travel assistant to the Prime Minister.

Senator RONALDSON—It is to assist everyone, isn't it?

Senator FIERRAVANTI-WELLS—It is to assist everybody. It has assisted me to understand that this person is the travel assistant to the Prime Minister, and now I am asking questions about his employment under the Members of Parliament (Staff) Act which go to

what he does, where he does it and with whom he does it. So my next question is: does he undertake his duties under the MOP(S) Act solely at Parliament House?

Ms Mason—Ministerial and Parliamentary Services is aware of the home bases of staff engaged under the MOP(S) Act but not necessarily of all of the locations from which they work from time to time.

Senator FIERRAVANTI-WELLS—Where is the home base of the travel assistant to the Prime Minister?

Ms Mason—We are just checking that for you.

Senator Faulkner—Senator, there are a number of executive assistants in the Prime Minister's office. Senator Ronaldson provided me with a copy of the document yesterday so that the name of this particular executive assistant would not be identified. Given that I have seen the document concerned—

Senator RONALDSON—And the description.

Senator Faulkner—I undertake that, once the home bases of all the executive assistants in the department are provided to me, I will provide an answer for you. It might come as a shock to you that the department does not necessarily know each one, but as soon as we get the information, I will provide it to you.

Senator FIERRAVANTI-WELLS—Can I assist you: you do not have to go to that extent. All you have to do is a search on occupants on ParlNet and it shows you six entries for the personal staff of the Prime Minister and lists an executive assistant to the Prime Minister, an assistant personal secretary—

Senator Faulkner—The executive assistant is Canberra based.

Senator FIERRAVANTI-WELLS—Thank you. Does the travel assistant travel with the Prime Minister wherever he goes?

Senator Faulkner—Not to my knowledge. I would have to—

Senator FIERRAVANTI-WELLS—If he is a travel assistant, I assume he travels with the Prime Minister. Does he travel to Brisbane?

Senator Faulkner—You have asked a question as to whether the executive assistant travels with the Prime Minister wherever he goes. I do not know the answer to that question.

Senator BRANDIS—This is the Prime Minister who won an election on looking after working families. This looks terrible.

Senator FIERRAVANTI-WELLS—Can I just get an answer to my question: does he travel to Brisbane? Does he travel with the Prime Minister all the time?

Senator Faulkner—I think what looks pretty ordinary, to be honest, is the extraordinary behaviour of opposition senators at this committee. That is what I think looks pretty ordinary.

Senator FIERRAVANTI-WELLS—Senator, spare me the diatribe. All I want to know is: does he travel with the Prime Minister? If he is the travel assistant, he must travel with the Prime Minister.

Senator Faulkner—That is not what you asked. You actually asked: ‘Does this executive assistant always travel with the Prime Minister?’ Now you are asking: ‘Does the executive assistant sometimes travel with the Prime Minister?’

Senator FIERRAVANTI-WELLS—Perhaps I can address my question to Ms Hughes.

Senator Faulkner—The answer to that question is yes.

Senator FIERRAVANTI-WELLS—Thank you.

Senator BRANDIS—We’ve only been asking for an hour and we’ve got a straight answer!

Senator FORSHAW—We had a straight question for once.

Senator FIERRAVANTI-WELLS—Ms Hughes, can I ask you to produce for me all the documents relating to the travel of the travelling assistant of the Prime Minister? I would like to know the travel patterns of the travel assistant to the Prime Minister—as much information as is in your purview. I will approach Defence for other—

Senator BRANDIS—And each trip.

Senator FIERRAVANTI-WELLS—And for each particular trip—thank you, Senator Brandis. And, while we are at it, can we throw in who else travels with the Prime Minister and in what capacity that person has been travelling with the Prime Minister since 24 November 2007. Thank you—that is on notice. Does the travel assistant to the Prime Minister also assist the Prime Minister’s wife, if they are travelling together? Is that part of his duties?

Dr Watt—We would not know.

Senator FIERRAVANTI-WELLS—You would not know?

Dr Watt—No.

Senator FIERRAVANTI-WELLS—This person is paid for under the Members of Parliament (Staff) Act by the taxpayers of Australia. He is described as the ‘travel assistant to the Prime Minister’, and he clearly travels with the Prime Minister. So he could render assistance to the Prime Minister’s wife when they are travelling as well?

Senator Faulkner—That is, as you know yourself, a hypothetical question. The executive assistant could do a lot of things.

Senator FIERRAVANTI-WELLS—I am sure he could!

Senator Faulkner—I have indicated to you, as have officials at the table—

Senator FORSHAW—Do your family, Senator Fierravanti-Wells, ever go to your office and have your staff make them a cup of tea? What the heck are you going on about, you hypocrite? You are a complete hypocrite.

Senator Faulkner—that on occasions the executive assistant does travel with the Prime Minister.

Senator FIERRAVANTI-WELLS—Chair, on a point of order: could you please tell Senator Forshaw that that is unparliamentary language.

Senator FORSHAW—I accept that. I withdraw it.

Senator FIERRAVANTI-WELLS—I ask Senator Forshaw to withdraw it.

CHAIR—There is a point of order before the chair. I am sorry; could you repeat that. I could not hear it.

Senator FIERRAVANTI-WELLS—I would like him to withdraw his comments.

Senator FORSHAW—I withdraw the unparliamentary language.

CHAIR—It has been withdrawn. I remind senators that we are finishing at 12.30, so any questions—

Senator FIERRAVANTI-WELLS—If volunteers—

Senator FORSHAW—Volunteers? Oh, come on! If you want to open this stuff up any further, I am happy to go down that track.

CHAIR—I remind senators that any questions that cannot be asked before 12.30 will have to be taken on notice.

Senator FIERRAVANTI-WELLS—When the travel assistant does travel with the Prime Minister, does he stay in the same place as the Prime Minister or nearby?

Senator Faulkner—I will take that on notice. You must be aware that that is not a matter for this committee. Of course MAPS would have no such knowledge.

Senator FIERRAVANTI-WELLS—Of course it is! It is taxpayers' money. If this person is travelling with the Prime Minister as his travel assistant, he is obviously being paid to do so, and I would like to know. I think most working families in Australia would like to know—

Senator Faulkner—Your staff, and everyone who works for a member of parliament—

Senator FIERRAVANTI-WELLS—that if the Prime Minister has a travelling assistant—call it whatever you will—

Senator Faulkner—Let me respond if I can.

CHAIR—I ask the minister to respond.

Senator Faulkner—Can I possibly get a word in edgeways?

Senator FORSHAW—It does not look like it!

Senator Faulkner—Really, just let me answer one question you might ask. Senator Fierravanti-Wells, with every member of parliamentary staff—whether it be for a senator, a member of the House of Representatives, a minister, a parliamentary secretary, an opposition office-holder, a member of a minor party, an Independent or the like—all those staff, it is true, are paid for by the taxpayers. So what you have said there is absolutely right. But, in relation to a proportion of the questions that you are asking, there is no absolutely no knowledge at this committee—which is Ministerial and Parliamentary Services in the Department of Finance and Deregulation—about these matters. There is more capacity, obviously, in the Department of the Prime Minister and Cabinet to answer these questions. When either I or officials are unable to answer your questions, and they are more appropriate—or are appropriate—to be placed on notice for the Department of the Prime Minister and Cabinet, I have done so. So, in relation to your last question, I will take that on notice.

CHAIR—I would like to ask a question, if I may, in the couple of minutes of time that remain.

Senator BRANDIS—Doesn't Senator Fierravanti-Wells have the call? Senator Fierravanti-Wells is asking questions.

Senator JACINTA COLLINS—No. I think the chair just took it back, Senator Brandis!

Senator RONALDSON—If you want to ask a question, we are happy to go over to after 1.30 pm.

Senator FORSHAW—Excuse me! You are not running this show anymore, Ronaldson.

CHAIR—I have previously foreshadowed—

Senator BRANDIS—Oh, there it is! You give it away, Senator Forshaw!

Senator FORSHAW— You are not running the show.

Senator BRANDIS—Prime Minister for six months and he is already—

CHAIR—Thank you very much, Senator Brandis. I was trying to speak. I had foreshadowed that I had questions. We had an agreement on the time this morning, so some of what I am seeking clarification on would obviously need to be taken on notice. My question relates to senators' and members' entitlements as far as the PDAs are concerned. I am following up from previous questions in estimates in relation to why we had the two brands that we had available to us. What I am interested in is the number of those PDAs that have been returned and the number of senators and members who have resorted back to having to use mobile phones because the PDAs have been inadequate. I would also be interested to know—on the new PDAs, the HTCs, that have been handed out recently—the number of senators and members who have had the option of taking these up, and also the number of these that have had to be replaced, what the budget has been that was allocated for these PDAs and whether or not that was exceeded because of the problems associated with the PDAs.

Mr Quester—I will have to take that question on notice because there is a fair bit of information contained in it. I can get all that information for you, Senator, and I will provide it as soon as possible.

CHAIR—I would appreciate that. Senator Kemp.

Senator JACINTA COLLINS—Chair, while will we are on this point—

CHAIR—Senator Collins on the same issue.

Senator KEMP—I have got the call.

Senator JACINTA COLLINS—You haven't got the call.

Senator FORSHAW—I have a point of order, Chair. A moment ago you proceeded to take the call—and I have spent a fair bit of time at these proceedings, probably as much as any other senator, other than your good self—and Senator Ronaldson effectively challenged your right to do so. We now have the situation where you give the call to Senator Collins and Senator Kemp interjects—

Senator JACINTA COLLINS—I have got the call—

Senator FORSHAW—that he has got the call. My point of order is that senators should actually have a look at the standing orders. You are the chair. You have the right, the duty and

the responsibility to conduct the proceedings of this committee; it is not for Senator Ronaldson or Senator Kemp or any of us to do that. I think people should respect the fact that when you seek to give the call to a senator or, indeed, to take the opportunity to ask a question yourself, we should respect that.

Senator RONALDSON—On the point of order. I merely suggested, as you are aware, that, if we were running out of time, we could always move it over until after lunch, if that served the committee. I was not directing what you should or should not do and—

Senator FORSHAW—Yes, you did.

Senator RONALDSON—I most certainly did not. That is a terrible thing to say.

CHAIR—Senator Collins has the call on the same issue relating to PDAs.

Senator JACINTA COLLINS—My concern is that we are not receiving some general response to that question while we wait for the particulars. Is there some general feedback you can give us, particularly about the newer HTC PDA. Can you also give us a generalised response to the earlier questions of Senator Polley? There is no reason for us to wait three weeks for some of these answers.

Mr Quester—I will have to take on notice the questions on the number of returned devices and the costs that have been incurred on them.

Senator JACINTA COLLINS—I understand.

Mr Quester—We have been limited by the number of devices available in the environment for the Telstra 3G network, and that is why we have not been able to provide for the devices. We released the service with the i-mate JazJam and the Palm Treo. The i-mate JazJam is no longer made. The HTC Neon became available on the market this year. We tested that and made that available. We have just given approval to make available another device, the i-mate Ultimate 9502, which is a larger PDA. DPS are currently providing the build for that, and we expect that to be available to senators and members within the next two weeks. The process is that we advise state managers that the device is now available, and when a senator or a member requests a new PDA device, they are given the options. The idea is to eventually have four devices ranging in size from a small smart phone—when they become available—to a larger PDA so that a senator or a member can choose what will best meet their business need.

CHAIR—Senator Kemp, did you have a question on that issue?

Senator KEMP—I have a question for the minister. He was asked a question yesterday, which he wanted to reflect on, about the government's election promises—

CHAIR—I am sorry. I thought this was on PDAs.

Senator KEMP—I am asking quite a separate question.

CHAIR—Can I just follow up on the response in relation to PDAs so that we can clarify this issue?

Senator KEMP—I have never seen such a shameless effort to cover-up.

CHAIR—Can I just follow up on the question relating to the PDA before you leave?

Senator FORSHAW—Point of order, Chair.

Senator JACINTA COLLINS—Would you please ask Senator Kemp to shut up.

Senator FORSHAW—Would you please ask Senator Kemp, who flits in and out of this committee at a whim and disturbs the proceedings, to be quiet. I understand you have taken the call and you are asking a follow-up question to Senator Collins. I believe you are entitled to do so.

CHAIR—Thank you for the point of order. In relation to the response to Senator Collins and your statement about the options that are available, I have a basic query. With the number of difficulties that we have experienced with the PDAs, including the new one—I have had it for two weeks and I am about to get a third one—why was no consideration given to proven performers like Blackberry, which, I believe, would have overcome some of these difficulties? I am quite happy for you to give a general response now or to take it on notice.

Mr Quester—I can give you a response to that. When we looked at providing this sort of technology, a working group was convened between parliamentary services and finance. The working group came to the conclusion that Blackberry would be a good solution for senators and members. The Special Minister of State at the time approved a trial of Blackberry. The Presiding Officers Information Technology Advisory Group, POITAG, made the decision that they did not think that would meet all of the needs of senators and members and asked for a survey to be done of senators and members on what would best meet their needs. When that survey came back, POITAG discussed the results of the survey and said that the Windows Mobile solution would better meet the needs of senators and members, and that is when the trial of Mobile 5 devices was undertaken. We did look at Blackberry, and we did suggest that, but POITAG—

Senator JACINTA COLLINS—So it is POITAG's fault?

Mr Quester—I am not putting blame on POITAG; that was the direction we were asked to take.

CHAIR—Senator Kemp, do you want the call?

Senator KEMP—I wanted the call, but I was transfixed by this fascinating discussion. Senator Faulkner is well aware of the question. It relates to the list of election promises administered by his department. Senator Faulkner suggested that he did have a list and that he was going to seek that list and table it, and I would now like that question responded to.

Senator Faulkner—I took questions on notice in relation to these matters during examination of the estimates of the Department of the Prime Minister and Cabinet. I also tabled a comprehensive list of election policies for the benefit of the committee. But, at this stage, I do not have a response to that question or, for that matter, any of the other questions that were taken on notice over the last two days.

Senator FIFIELD—I think that there has been quite a bit of use of abusive terms such as butler and valet, and I would like to take my colleague Senator Ronaldson to task. Jeeves is a valet, not a butler. A valet serves his employer as a person, whereas a butler serves his employer's house. I thought that might be of assistance to the committee.

Senator RONALDSON—My humble apologies.

Proceedings suspended from 12.30 pm to 1.35 pm

Medibank Private Ltd

CHAIR—Good afternoon. I welcome the minister and representatives of the department. Minister, did you wish to make an opening statement?

Senator Sherry—No, Chair. I do not know whether anyone else does.

Dr Watt—We are not big on those, Minister.

Senator CORMANN—Mr Savvides, welcome this afternoon. I was just wondering whether, before we get into the questions, you could perhaps give us a bit of a snapshot overview of Medibank Private: how you have been going over the past five or so years, how your business environment has developed over that time in terms of membership trends and what you see to be your role as the government owned private health fund, as part of the overall Australian health system.

Mr Savvides—The fund over the last five years has performed very well. It had a tough journey back in 2002. The fund lost \$175 million. Since that time, we have had a steady and progressive improvement to our business performance, and the margin improvement continued right through on a steady basis, so that last year our financial results showed a net profit around \$295 million, with a revenue line-up of just over \$3 billion. We also have been growing membership during that time, so not only have we restored the product portfolio in terms of margin performance, underwriting performance, but we have enjoyed some good, healthy growth of members, across all of the ages in the growth spectrum but predominantly in the younger and the young family segment, up to around the age of 40. That has been spread right across the country.

We are a national health fund. We operate over 100 retail centres and a couple of call centres in Australia, and we service our membership through both retail e-business and our direct channel. We have also gained market share in the last couple of periods of performance review, about 18 months now, and we are growing our market share as we speak. The share is up around 28 per cent of the national market.

Senator CORMANN—And maybe just the last part of the question: what do you see to be your role as the government owned major private health fund as part of the overall Australian health system?

Mr Savvides—Obviously we are very heavily invested in making sure that our products are full-value products. We do not indulge in what we call bottom-end products, products that have a lot of exclusions and little value when customers actually try to use them and experience them. So we are quite disciplined in making sure that the product portfolio is one of substance and we do not get distracted into the heavy discounted end of pricing in the segment.

Also, service is important. Some health funds have shrunk or reduced their servicing capability by shutting down their retail footprint, but we are committed to a strong face-to-face servicing across Australia. We have actually grown our retail footprint over the last three or four years, as well as a strong Australian based call centre and servicing centre.

On a pricing perspective, we have worked hard to make sure that our increase in profitability has been shared with our members, our customers. You will note in our tabled results that our rate increases for the last four years have consecutively come down year after year in terms of the size of those rate increases, starting up around eight per cent and coming down to this year's rate change of 4.6 per cent.

Senator CORMANN—What role do you play as part of the overall Australian health system?

Mr Savvides—I think we would see ourselves as setting the standard for service quality, product breadth and comprehensiveness and price affordability.

Senator CORMANN—And you would fund a sizable share of hospital services delivered across Australia?

Mr Savvides—Yes. We are the largest procurer of private hospital services in the country. We consume around \$2.7 billion a year in claims from our membership, and the hospital component of that is about \$1.5 billion. That is growing annually at around eight per cent a year.

Senator CORMANN—So, if we just look at the number of private hospital episodes that you as a fund would have funded over the last five or seven years, how has that developed from a trend line point of view?

Mr Savvides—Obviously with an ageing population and a consumer base that uses health, and as health knowledge grows, people use the product even with greater frequency. Also, the usage is in greater acuity too, so the use of the services that are being claimed continues to grow in complexity, and the costs of prostheses that we are providing our customers who need them are also escalating through that period of time.

Senator CORMANN—But would you say that your share of funding overall hospital episodes has increased over that time, if your market share is increasing? If the private health insurance sector is increasing, it stands to reason, does it not, that the share of hospital episodes which you fund would have had to increase as part of the overall—

Mr Savvides—The answer to the question is generally yes, but, at the margin, Medibank's procurement of hospital services has improved in unit costs during that time. Costs go up but the rate of costs is declining, because we have worked hard to use the scale that we have to buy more effectively so that our customers enjoy, at the end of the day, a health cover that is more affordable. We use our scale to buy better, and that means that we may not have the same market share in hospital costs as our market share in industry revenue.

Senator CORMANN—Did you submit a rate change application towards the end of last year?

Mr Savvides—Yes, we did.

Senator CORMANN—When did the government tell you that it would be allowed through, that it would not be disallowed? Have you got the date when the government told you about that?

Mr Savvides—Last year we submitted our rate application at the specified time and we received notification early this year—I think it was late February or early March.

Senator CORMANN—I have a press release from the minister dated 28 February, which is when a series of funds were essentially notified that it would not be disallowed but a series of funds were sent back to the drawing board. Were you one of the funds that were sent back to the drawing board?

Mr Savvides—No, we were not.

Senator CORMANN—So you were approved. When did the rate change take effect?

Mr Savvides—I believe the letters went out in April and it took effect at the end of April.

Senator CORMANN—I will just read you a quote from the health portfolio budget statement. The government says, on page 146, if you want to cross-reference it down the track:

The Department will, together with the Private Health Insurance Administration Council¹ (PHIAC) support the Government's assessment of private health insurance premium applications to ensure that increases are the minimum needed to maintain insurer solvency requirements and that the insurers can meet their claim obligations to members.

Did you frame your rate change application with that in mind?

Mr Savvides—To ensure that we meet the minimum requirements?

Senator CORMANN—That the rate increase is not going to be more than the minimum required to maintain insurer solvency and that insurers can meet their obligations to members. The minister in her press release calls that not proceeding with the 'tick and flick approach' but essentially forcing health funds, including you, to apply for the lowest possible increase in health insurance premiums.

Mr Savvides—I am not totally familiar with the press release. It was some time back. I am aware it occurred but not of every line in it. What I can say is that when we do our rate application we do project the claims experience we believe will happen in the out years and we set a rate not only conscious of the immediate year ahead of us; we are a fund that believe very, very strongly in trying to avoid volatility in rate change. The steady reduction that we have experienced over the last four years is an experience that we think our members appreciate. They do not like surprises. And we work hard to make sure that our rate application manages not only an outcome for the immediate year but an outlook expectation as well.

Senator CORMANN—If I read the government's intent in the government papers, which is not to allow rate increases beyond the minimum needed to maintain insurer solvency and cover future claims, it sounds to me as if there is not much of a buffer in that. Would you agree with that?

Mr Savvides—I think it is a different picture for every fund. There are 37 health funds in the sector. The total membership of the bottom 20 funds is lower than the increase in membership that we have every year, so—

Senator CORMANN—So you do have a buffer in your rate change?

Mr Savvides—Absolutely we do.

Senator CORMANN—So your rate change application was actually more than what was required to maintain minimum solvency and to cover future claims?

Mr Savvides—It would have a safety buffer beyond the minimum buffer. That is exactly right.

Senator CORMANN—You are the government owned health fund. That would appear to be inconsistent with the government's stated intent in the budget papers. You have a buffer above minimum requirements in terms of insurer solvency and meeting future obligations. So you have a buffer on top of that.

Mr Savvides—We have a safety buffer. Our board always prescribes a buffer beyond the minimum because it is appropriate to deal with the volatility that might occur in claims.

Dr Watt—I think it is important to reflect on two points, one of which Mr Savvides has made. The objective of the fund is to avoid volatility in rate increases—you know: up down, up down over three years. So you would therefore take a slightly conservative approach. I think the other thing it is worthwhile reflecting on is that I do not think some safety buffer to ensure that you stay fully compliant with prudential regulations is necessarily a luxury.

Senator CORMANN—Thank you very much for that. I totally agree with you. I do not think a buffer is a luxury, and I totally understand that Mr Savvides, as a very effective and competent managing director of Medibank Private, would be very cautious and prudent in the way he manages the prudential responsibilities that are his. I am just trying to establish what the government is telling us they are going to do, which is, 'We're not going to approve any rate increases beyond what is required to maintain minimum solvency requirements and cover future claims,' and what is, in effect, the practice. And I note what is, in effect, the prudent practice by the government's own private health fund.

Can you quickly run us through the key variables that have the greatest impact on your actuarial projections feeding into your rate change applications? You mentioned obviously claims experience, and I read in the *West Australia* earlier this week that you will expect that that will be slightly higher than last year. Last year it was eight per cent; this year, by the end of June, you expect it to be nine per cent. What are some of the other key variables that feed into your rate change application process?

Mr Savvides—There are lots of things: obviously the growth rate of the economy itself and the ability for people to afford the product. Migration has an impact, because we sell to the market for private health insurance of those who come to Australia as well, including overseas students. There is a whole variety of impacts on our top line. If the growth rate of those particular streams of business was to slow or to change in its pattern, that has an impact on margin and margin then has an impact on our ability to service future claims. That is one area of variation.

In the actual population usage of products, technology can come in and surprise us. When pacemakers turned into defibrillator pacemakers we saw prices move from \$7,000 to \$50,000 for the device, for that extra functionality. It has become the default selection of cardiologists to implant the higher spec product. Private health insurers reimburse the entire price of the

device; therefore, you do not need too many units of these to be implanted—and they go in their thousands—to have a material effect on your prostheses outlays or your devices outlays. So that is another cost structure.

Also, nursing costs, for example. There maybe a wage adjustment in nursing costs and there is a flow-on effect in our contract negotiations with private hospitals. That has the ability to impact.

Senator CORMANN—You are mentioning a whole series of things of course that I am sure your chief actuary would have included in his projections as you were putting your rate change application together. What sort of importance do membership trends have on your rate change submissions? Again, I go back to the minister's press release. Because you might not be able to recall it, I will quote:

In deciding whether or not premium increases are in the public interest, I will consider factors such as the size of an increase ... the industry average, market share, membership forecasts—

I assume that in your submission you would have addressed all of these things. Can you put into perspective for me the importance of membership forecasts as part of your rate change submission?

Mr Savvides—When you run a business where the revenue line, say the 100 units, is then offset by the claims that people claim on the fund, which sometimes peaks up at around 90 units—so for every \$100 million of revenue, \$90 million is claimed against it—any variation in the top line's growth rate is very sensitive because it is a very small margin that we operate on. Industry margins in private health insurance range from zero—sometimes they are under zero—to five or six per cent. It does not take much if you are at a one or two per cent margin performance to feel the fluctuation and the impact of a slowing or growing revenue line.

Senator CORMANN—You mentioned that in recent years you have had comparatively low average increases in premiums, and of course you have had very strong membership growth. Is it fair to say that one of the reasons you have been able to keep your rate increases lower than they would have been is because of that strong membership growth over the last couple of years?

Mr Savvides—Membership growth that is profitable.

Senator CORMANN—Like non-claimers or young people?

Mr Savvides—Yes, or it could be incorrect pricing or overspend on marketing or wrong targeting. There has been some calamity in the sector from time to time, where people have grown off a non-profitable base and all they have done is grow into loss-making enterprises and invested in volatile premium change in the out years. But, yes, we have focused on selling quality product that is positively margined to a healthy economy—full employment, lots of people able to buy the product. We promote our brand and we get the response. We have a strong service and sales network, so we have generated a healthy top-line growth.

Senator CORMANN—I assume that, when you put your rate change application together—which came into effect on 1 April and which was approved late February, early March—that you were unaware of the government's intention to change the Medicare levy surcharge thresholds?

Mr Savvides—That is a given. They made that decision after that process.

Senator CORMANN—So you were not consulted on that prior—

Mr Savvides—No, we were not.

Senator CORMANN—How do you expect that decision to impact on your membership trends?

Mr Savvides—We are still working through an analysis to understand that. It is early days. It only happened two weeks ago. It will obviously slow down. There will be an adjustment with a proportion of our members—

Senator CORMANN—The government's own figures suggest that there will be half a million people—

Senator Sherry—I am sorry; just let him finish. You are interrupting him.

Mr Savvides—We are obviously trying to analyse that. We have not finished our corporate planning process yet. Our board has not reviewed a series of projections for the future, nor have we communicated that up the line to our shareholder yet. It is very early days.

Senator CORMANN—Have you done any modelling in relation to the government change in policy?

Mr Savvides—We are starting the process of modelling right now, yes.

Senator CORMANN—You are only starting it, or have you actually concluded it?

Mr Savvides—We have not concluded it. Can I say that I do not think conclusion is in the sentence really, because we have to really see how this unfolds once the policy is real.

Senator CORMANN—Do you still operate under the governance arrangements for Commonwealth government business enterprises, which come from the Department of Finance and Deregulation—

Mr Savvides—I am sorry; I missed that.

Senator CORMANN—From the department's website I got governance arrangements for Commonwealth government business enterprises. Are your corporate governance relations between Medibank Private and the shareholder minister still regulated by those—

Mr Savvides—As a GBE, government business enterprise, they are.

Senator CORMANN—I refer to your statement just now that you have not even communicated back to the responsible shareholder minister. I refer you to 2.17:

The directors of a wholly owned GBE should follow a disclosure principle which is similar to the continuous disclosure requirements of the Australian Stock Exchange listing rules: once a GBE comes aware of any information that may have a material effect on its value, that information must be immediately provided to the Shareholder Ministers.

Would you agree that the government's policy change has a material effect on the operations of your business?

Mr Savvides—We expect that it will, but the analysis that needs to be done so that we can actually communicate an effective disclosure has not been completed.

Senator CORMANN—But if you look at what happened to other similar funds in the industry. NIB is a publicly listed fund, and we have just heard that you are expected to operate under those disclosure arrangements. NIB put out two disclosures to the Stock Exchange within days of the announcement being made and in fact their market capitalisation has gone down by 20 per cent in the last—

Dr Watt—I think there is a qualification which you read out in that paragraph, which was the word ‘similar’. Clearly, while the government expects its GBEs to keep it informed about the valuation, it does not put itself in quite the same position as a shareholder whose shares are daily traded on the Stock Exchange, and it never has.

Senator CORMANN—Are you expecting me to accept the proposition that Medibank Private, on noting the change in policy as far as the Medicare levy surcharge thresholds are concerned, did not immediately assess the impact on its operations and provide some feedback to the shareholder minister as to what would—

Dr Watt—I am not asking you to expect anything. I think the point I am making is that you asked: when will the modelling be done; when will the results be had? I think what we have said here is that Mr Savvides found out about the measure, in his own words, ‘on budget night’, which was a little over two weeks ago. Would I, as secretary of the department, have expected that full modelling to be done in two weeks and that there would be a report on the minister’s desk? Not necessarily, no.

Senator CORMANN—Essentially, that pretty well means that you do not report under continuous disclosure arrangements.

Dr Watt—Again, I think the word is ‘similar’.

Senator CORMANN—Are you saying that Medibank Private would not have the capability that NIB has?

Dr Watt—No, I am not suggesting that at all.

Senator CORMANN—If it has the capability, why would it not do so?

Dr Watt—I am not suggesting that at all. I am suggesting that there is a difference—

Senator CORMANN—What is the difference?

Dr Watt—There is a difference between a corporation whose share price is quoted daily on the Stock Exchange and a corporation who, when the government is involved, is concerned about its long-term value.

Senator CORMANN—So the Commonwealth is not as worried about the ongoing value of a major government business enterprise asset?

Dr Watt—The Commonwealth has concerns about the long-term value of all its assets. After all, that is why we then put them on our balance sheet. But, again, there is not the same concern for an entity where the interest is long-term value as opposed to an entity which is daily quoted on the Stock Exchange. That is why the word ‘similar’ is used in there and not ‘same’.

Senator CORMANN—I go back to reporting. You mentioned corporate plans. When did you submit your last corporate plan?

Mr Savvides—It was June-July last year.

Senator CORMANN—Can you confirm the exact date for us, please, and provide us with a copy of that?

Mr Savvides—I can. I will take that on notice.

Senator CORMANN—Yes, please take that on notice and provide us with a copy of that corporate plan.

Dr Watt—I think we can probably get it here and now, can't we?

Senator CORMANN—Could you table it?

Dr Watt—We will see if we can get one up and table it for you.

Senator CORMANN—That is fantastic; thank you. I go back to those governance arrangements between the Commonwealth and Medibank Private. I refer you to 2.1C:

(c) The directors keep the Shareholder Ministers informed about:

- i. significant changes to the plan; and
- ii. matters that arise that might significantly affect the achievement of objectives in the plan.

Have you done that? There is no 'similar' in this.

Mr Savvides—In the discussions that we have with the Department of Finance and Deregulation we have a monthly dialogue and reporting cycle with them in terms of operational performance. We have already flagged, in terms of a change on the horizon, the introduction of the Medicare levy surcharge changes. We have indicated to the department that we are doing some work to understand the impact of that on our business and on our corporate planning process going forward. We are in interaction with them as we develop those plans.

Senator CORMANN—You are telling us here, as a Senate estimates committee, that you have not conducted any conclusive modelling of the impact of the policy change—

Senator Sherry—The witness has clearly indicated that, prudently, the organisation has commenced examination and work but it has not yet concluded.

Senator CORMANN—That is not my question. My question is: you have not conducted any modelling on the impact of the government's policy change that would give an indication to you—I am not asking whether the modelling has been concluded—of how the change to the Medicare levy surcharge policy is going to affect the performance of your business?

Mr Savvides—We have the formation of an outlook. It has not come to our board. It has not been approved as a formal view that we have endorsed. That work is under development.

Senator CORMANN—You have been in this business for a long time. What is your chief actuary telling you will be the impact of that change to the Medicare levy surcharge policy on your premiums, on your membership trends and on your capital adequacy?

Mr Savvides—If I were to communicate publicly an indication of where our premiums would be in a year's time—

Senator CORMANN—Are you claiming commercial-in-confidence?

Mr Savvides—No. I am more concerned about the competitive nature of sending signals to my competitors about—

Senator CORMANN—So you are claiming commercial-in-confidence? Minister, you will have to claim that with us in writing.

Mr Savvides—I am more concerned about trade practices and giving signals to my competitors about what my rates might be next year.

Senator CORMANN—Do not give us specific detailed facts and figures; give us an indication of the overall trends and the magnitude of those trends that you expect.

Mr Savvides—We would expect that the Medicare levy surcharge changes that have been made or indicated will contract the growth in that particular cohort of members who come through on those salary bands. We have seen the Treasury assumption document. Out of that, and we are not necessarily saying it is exactly the same view we have, but, if you use it as a guide, it has the ability to slow down our hospital growth rate probably by about, at the light end, seven per cent and maybe up to 10 per cent.

Senator CORMANN—Do you have a breakdown of your membership profile by household earnings?

Mr Savvides—No, we do not collect wage related membership details.

Senator CORMANN—So you would not have an indication as to how many of your members earn less than \$50,000?

Mr Savvides—No, it is not information that we have.

Senator CORMANN—I mentioned to you earlier how it is the government's intention to minimise your rate change—your rate increases—and the minister has obviously been on the record about that on many occasions. You have just said, 'Well, we've got a small buffer in it.' But there has just been a shifting of the goalposts on one of the key variables, membership trends. If you came to the conclusion that, to be a prudent managing director, you had to have another look at whether the rate change that was approved earlier in the year was sufficient, would you be able to submit another rate change application outside of the traditional yearly cycle?

Mr Savvides—Medibank Private is a very strong health fund. Its strength today is greater than anything it has ever done in the 32 years of its history. Our adjustment to the Medicare levy surcharge is an adjustment that we can make going forward. We do not need any retrospective activity.

Senator CORMANN—But the government cannot have it both ways. I guess I would invite comments from the secretary or the minister. Either you say, 'We're not going to approve a rate increase that is beyond the minimum required to maintain solvency and cover future claims,' and then there is not really much room to move once there is a significant shift, or you say, 'We've put in a buffer and we have enough of a buffer to ride through the loss of at least half a million members from private health insurance,' of which you would have a 30 per cent share. Industry experts indicate it could be up to one million and it would be 300,000 members that you would potentially lose. If you tell me that you are actually able to ride that through—that you have enough of a buffer to potentially write through the loss of 300,000

members of your fund—how can we believe what the government said on its approach to rate change applications earlier this year?

Mr Savvides—As we look into the future now, with the changes that are being promoted, we do not just stand still as a company. We are a commercial enterprise. We compete with 36 other funds. Medibank Private and every other fund, I guess, will do the same—be out there, working hard to attract new members into the private health insurance arena and certainly into our fund. We will be promoting our products and working hard to retain our current membership. In relation to those who may be inclined to leave as a result of the changes that have been announced, we do not believe that it is a situation where we just stand still and do nothing. In fact, we are very confident that we can actually make an impression on what might look, at a superficial level, as quite a significant shock to the landscape of growth.

Senator CORMANN—Superficial level! I do like your enthusiasm and your optimism, and I am sure you are right to some extent. But Treasury's own conservative estimates are that half a million people are going to leave private health insurance and I think it is fair to say that that is on the conservative side of the estimate.

Dr Watt—I do not think Treasury has agreed that it is on the conservative side.

Senator CORMANN—Okay. Let me just say that in my view it is on the conservative side of the estimate. The best case scenario is that you are right and I am wrong. Let us say it is somewhere between—

Dr Watt—Both of us might be wrong. It might be a good deal smaller.

Senator CORMANN—There you go. Let us just say that 500,000 people leave. You do not think that you are going to be impacted by that at all? Is that the advice that your chief actuary is giving you?

Mr Savvides—The way that you have described 'impacted' I think relates back to prudential minimum. We are not concerned about prudential minimum in this discussion at all.

Senator CORMANN—What do you mean when you say that you are not concerned about prudential minimum?

Mr Savvides—You related to the minimum requirements of capital adequacy insolvency—

Senator CORMANN—I am concerned about two aspects of it. I am concerned about the prudential minimum and your capacity to cover future claims. The government, in its budget papers, says that it will not allow any increase and it will use the Department of Health and Ageing and PHIAC to ensure that it does not approve any rate increases beyond what is required to meet those two criteria.

Senator Sherry—I am sorry; the witness has already indicated that they have, in his expert view, minimum capital adequacy.

Senator CORMANN—So has the government approved a rate change beyond that which was required by those two criteria, as far as Medibank Private, the government's own private health fund, is concerned?

Mr Savvides—You will have to ask the government that question, because I did not—

Senator CORMANN—It was a rhetorical question; I think you have answered it. You have already said that you were not consulted prior to the government making that decision, so when exactly did you find out? Were you part of a budget lockup?

Mr Savvides—No.

Senator CORMANN—So essentially you found out when you watched the Treasurer on television.

Mr Savvides—Yes.

Senator CORMANN—You would have choked on your evening meal, I would have thought.

Mr Savvides—There was obviously some speculation in the papers just prior to budget night and obviously it was confirmed on the night.

Senator CORMANN—You would have choked on your Weeties—

CHAIR—Excuse me. If you can just let them answer—

Senator Sherry—Is that really relevant?

CHAIR—it would be most helpful.

Senator Sherry—Put the question.

Senator CORMANN—Okay. Can you perhaps take on notice—

Senator Sherry—Be careful or I will start coughing. That will really choke you.

Senator CORMANN—By how much do you expect your premiums will increase as a result of this policy change?

Mr Savvides—We as a company do not give signals or forecasts on premiums.

Senator CORMANN—The shareholder minister, the minister for finance, holds those shares in trust on behalf of taxpayers. We represent taxpayers here and I think we are entitled to some indication on how a major government policy change impacting on that industry, which is owned by taxpayers, will impact on your business.

Mr Savvides—With respect, that is exactly the reason why I said that—because the commercial value of the asset Medibank Private would be damaged if we signalled to 36 competitors what our intention would be in terms of rates.

Senator CORMANN—So I just note that you are claiming commercial confidentiality. Can we just establish that?

Senator Sherry—There has been no report to the minister from the witness yet and the witness has already indicated, I think on two occasions, that they have commenced analysis but they have not concluded it. So it would be logical that there would be no indication of what is going to occur until the analysis is completed, as the witness has indicated, and, secondly, until the report and analysis is concluded and reported to the shareholder minister—in this case the Minister for Finance. That has not occurred yet.

Senator CORMANN—Is it usual for you not to get advice from your chief actuary for two weeks after a major change in the business parameters that you are operating within? Is that usual practice?

Mr Savvides—No, that is not what I said. The work that we do is the work that we commenced through our chief actuary on the night that it was announced, so we would know exactly—

Senator CORMANN—So you received some initial advice. Is that what you are saying?

Mr Savvides—The manager of Medibank Private are working on an understanding of the impact of this change.

Senator CORMANN—Great, thank you. So what is that understanding of that change?

Mr Savvides—It is a whole range of scenarios, and the reason it is a whole range of scenarios is as follows: firstly, we are trying to understand by understanding our customers whether everybody that might leave is going to leave on one day, on five months, on 18 months? The difference between those scenarios is incredibly significant in the way that the fund absorbs the changes. We do not know the answer and we will not know until probably November-December, as we start to see a trend form. The campaigns and promotions that we will promote to our customers, the discussion that we will have with them, between now and that period of time will influence their behaviour. We are not going to stand there and watch this play out in a way where we are totally inert or insensitive.

Senator CORMANN—I understand totally what you are saying. What you are doing is identifying strategies to manage the risk that you have identified.

Mr Savvides—Correct, yes.

Senator CORMANN—That is very commendable and of course you will be doing that. What I am trying to get to, before you tell me about all of the strategies that you are going to implement to mitigate the risk, is what advice you have received on the risks that are needing to be mitigated. You cannot tell me that, as the managing director of Medibank Private and responsible for an operation of the size of Medibank, that two weeks after the budget has been released—and even three days more, because it was announced three days prior—that you have not received some very firm advice on what those risks are. Please give me some detail on those risks.

Mr Savvides—Again there are a range of outcomes that could occur. There is not one piece of answer here, because nobody does have one answer. Anybody who makes a statement on the impact of the Medicare levy surcharge makes a statement based on assumptions. An assumption, as I said, is a single point. We are examining hundreds and hundreds of scenarios that might occur as a result of this impact.

Senator CORMANN—Can you give us a list of the risks that you are assessing as a result of this impact?

Mr Savvides—Of the people that are in the salary bands that will be changed as a result of surcharge changes, 85 per cent of people today have private health insurance, which is—

Senator CORMANN—How much was that?

Mr Savvides—Eighty-five per cent. That is similar to the higher incomes that go beyond the surcharge bands. When you go below the surcharge levels, the participation rate of the population in private health insurance falls to around 55 per cent, 60 per cent. So there is higher participation as a result of the prior policies and lower participation for those who are not impacted by them. The reason why there is a large scenario range is that it is an estimate set that says: ‘Well, how much will that participation rate of 85 fall? How much of it will decline? Will it go straight down to 50, 55 or 60 per cent? Will it do it in one day? Will it do it in two years?’ It is a complex set of variables and not every health fund has the same proportion of those members in its population. Medibank has not fuelled its growth entirely on this group of customer cohort. Other funds have focused very heavily on them. We have a different mix of those kinds of customers than other funds could. We do not sell bottom-end product that attracts a greater proportion of this growth market that has occurred in the last four or five years. So our view is not an industry view, because in this particular area we do not have an industry mix.

Senator CORMANN—If I can just go back to the original question: what were the specific risks that Medibank Private has identified that it needs to manage as a result of this change in government policy?

Mr Savvides—We need to make sure that we answer our phones better than we do now—customer service and retention.

Senator CORMANN—No, that is a strategy. No, you are outlining the strategy to me.

Senator Sherry—I am sorry, he is entitled—

Senator CORMANN—Sorry, minister.

Senator Sherry—No, hang on. Just hang on for a second. You put a question; he is entitled to answer the question. He is the expert witness. He is giving the answer. He is entitled to answer it as he sees fit.

Mr Savvides—I am sorry; I will give it a category of risk. Lapse risk becomes the highest risk.

Senator CORMANN—Lapse risk becomes the highest risk.

Mr Savvides—Yes, and what is lapse risk? That is when people leave. Why do people leave? There are lots of reasons. We do not believe that the only reason a potential member in this target audience would leave is just the tax relief that comes in the policy. It could be that the experience and service that they have had in the product could be improved. They could be on the wrong product; they need to be serviced in terms of making sure that they are properly protected. There are a whole host of engagement issues that we need to manage to make sure that we manage the risk and get a commercial outcome that meets the needs of the company.

CHAIR—Senator Cormann, I am going to go to Senator Fielding, because we are due to finish at 2.30. You have had three-quarters of an hour. We will go to Senator Fielding, who has a couple of questions, and then we will come back to you.

Senator FIELDING—Thank you, Chair. I was interested in some of the conversations before on the rate rise application earlier this year. I did not hear all of the conversation, but I

think there was some outline about the timing of that—when it was sent there and then coming back. Could you just give us a bit more of an understanding of what that application really looks like?

Mr Savvides—The application process in the company is in full flight as we develop the proposal in November and December. The board signs off at the end of December. We make the submission to the Department of Health just prior to the end of the calendar year. It goes through a review process, obviously. There may be a need to attend to some of the content, so we may have some Q&A with the department of health probably in early February. After that it goes through the government's own approval process, and we may get an outcome—I think the earliest has probably been late February and often it is in March. Sometimes it might creep into April but March is normally when we hear. Then there is a notification and mail-out to customers. We obviously have to give them notice, and so the effective date occurs some four weeks or more later.

Senator FIELDING—Is the format basically similar to the previous year?

Mr Savvides—It has been pretty similar, yes.

Senator FIELDING—Can we have a look at that at all?

Mr Savvides—It is a department of health process, and I am sure they have that documented. Are you talking about our submission?

Senator FIELDING—Yes, your submission.

Mr Savvides—I think that is a highly sensitive commercial document in terms of—

Senator Sherry—I will take it on notice. I think it is highly unlikely to be provided but I will take the question on notice.

Senator FIELDING—The reason why I was interested in knowing was that there were concerns at the time about the increases being higher than the CPI base. The only people that seem to know whether that is a reasonable request and when it is granted is the minister and you. I am trying to work out as a member of the public but also as a senator: how do I have a look at that to make sure that the grounds for the increase are really justified?

Senator Sherry—Mr Savvides, you indicated that your application was granted, wasn't it?

Mr Savvides—Correct.

Senator FIELDING—I am still interested, knowing that there seems to be a debate—

Mr Savvides—On what basis—

Senator FIELDING—Yes.

Mr Savvides—Certainly PHIAC, the regulator of the sector, has a set of criteria, both on their website and in their own material that they distribute, and training that they do with the funds, which makes it very clear about the kinds of things they do when they review the fund's worthiness for its rate application.

Senator Sherry—We do not deal with that here in these estimates. Finance does not determine the rates so that is the appropriate regulator to go to on pricing.

Senator FIELDING—That is fine. I will follow it up through there again. I was just interested to know if you can take it on notice whether I can get a copy or look at what the application was.

Senator Sherry—We will see what we can do for you.

Dr Watt—I would imagine, if your question was the original one about the material PHIAC provides in the application data and so forth, it is probably on either the health website or the PHIAC website. If you are looking at what input the government gives or the—

Senator FIELDING—No, I am looking at, say, a situation where taxpayers are running Medibank Private—or are the owners of it. I would be interested to know in detail why the increase was above CPI, rather than just from some media releases that are played out in public, and to follow the rationale behind it all because they are sizeable increases to people.

Mr Savvides—What I can comment on is that the Medibank increase was below industry average. It was the fourth consecutive reduction in rate increase over the period. Behind that particular number, which is higher than CPI—you are absolutely right—is medical inflation running at eight per cent and more; 90 per cent of our revenue is claims, and claims are growing at nine per cent per annum in the health insurance industry so that is why it has that distorting effect that lifts it up above what the CPI number normally is.

Senator FIELDING—I have no doubt that you will pick figures out that prove the increases are going up. That will obviously strengthen your argument. I am after the whole picture so I can make up my mind—or the public can—and see whether it is justified. Because if private health insurance was not profitable, you would not get private companies buying into private health insurance. Someone has to keep a check on the premiums going out. At the moment, each fund submits an application, and we do not see those documents. Then all of a sudden statements are made saying, ‘We’re going to get tough and keep the rate increases down.’ The next thing we know, they are approved. I do not think that I can see a lot of scrutiny from the public. One was questioned or maybe two, but frankly the rest of them were way above CPI and, when everyone is pulling their belt in, I am just not sure that we could say that of the private health insurers without knowing the detail. You are telling me that costs are going through the roof. You are plucking figures out. I have not seen the detail. That is what I am after.

Dr Watt—It is also true that we are not the right department to answer those questions for you. It is the department of health, so it is an inability on our part to discuss it. It is the discussion of general issues that is important here. You will not find it hard. Look at any price index, and the price index of health services is going up a lot faster than CPI.

Senator FIELDING—I appreciate you taking the other part on notice. Thank you.

Senator CORMANN—After 40 minutes, not 45 by the way, we have finally come to the area that I am interested in, and that is the business risks that were identified by Medibank Private as a consequence of this change. You would, like any major corporation, operate within a risk management framework and you would actually categorise your risks in order of importance. How was this risk categorised once you became aware of the policy change?

Mr Savvides—Firstly, the whole concept of a Medicare levy surcharge changing was already on our risk register, because it has been there for 10 years and has not been indexed, so it would be not much of a risk register if it did not have that as a likelihood.

Senator CORMANN—Specifically that change or just a sovereign risk policy change by government, or did you have a specific—

Mr Savvides—MLS is part of the regulatory framework that could change. The actual level of change obviously we did not specify—but the actual item itself. So, now that it has come to full fruition, obviously we are managing the mitigation of that risk as we absorb that through the business and understand its impact going forward. That is the work we are currently doing and it will appear in our corporate plan and eventually go to the board and to our shareholder.

Senator CORMANN—So, compared to the risk that was already on your books, has there been any increase in the importance of the risk?

Mr Savvides—No. I can give you a high-level view about this. Basically, the impact that this change will have on our business—it is a single event step change in terms of growth because that particular component of our membership may reduce. But then, thereafter and even in the year we are talking about, the underlying business is growing. We are still attracting people into the fund. Obviously we are talking particularly in this discussion around a Medicare levy surcharge sensitised component of our membership, but that is not our only membership. We are drawing people from other funds; there are switches. We are drawing people who are new to the industry who are not motivated by the surcharge and do not have that as the reason for why they are entering. We are also managing our lapse rate; that has come down progressively over the last three or four years because we are working hard to retain the members that we have. Those variables contribute to the top line growth. The MLS impact has a one-year correction to that growth, but then growth continues.

Senator CORMANN—Those people that join Medibank to avoid the Medicare surcharge—is there a particular product that they join?

Mr Savvides—The industry has been promoting low-end dollar products—\$500, \$600 and \$700 products—to try to lure people in on the basis of: why pay that amount in tax, when you can buy a health insurance product for nearly the same amount of money? Medibank does not go that low in its product range, because we do not like selling products that have a lot of exclusion in them.

Senator CORMANN—Going back to your governance arrangements, for a second, the board has an absolute responsibility under those arrangements for the performance of the GBE and that applies to you as one of the government's business enterprises, doesn't it?

Mr Savvides—Yes, that is right.

Senator CORMANN—Can you outline for us what the board of Medibank has done specifically in relation to this issue since the budget announcement to manage to take responsibility and discharge its duty in relation to the impact of this government policy change?

Mr Savvides—I think the most specific thing it has done is that we are about to finalise our corporate plan, because it is at this time of the year that we complete that process, and send it off to our shareholder and the department. But we put a stop to that because the announcement came within days of completing the plan and, as we started to discuss amongst our board members, as we started to form an understanding of the materiality of the impact, the board was quite prudent and said, ‘Well, rather than send a document up that will only have to be amended, let’s seek an extension for the deadline of this plan and do our assessment of the impact of the surcharge levy and then complete the plan and issue it.’

Senator CORMANN—So your corporate plan is going to be different than it would have been. That is point 1.

Mr Savvides—Correct. That is right.

Senator CORMANN—Do you have a revised deadline from the shareholder minister as to when he expects to receive that plan?

Mr Savvides—I have sought an extension and I have not received a response as yet.

Senator CORMANN—When was it due before you sought that extension.

Mr Savvides—There is no grand—

Senator CORMANN—You are supposed to provide it once a year.

Mr Savvides—Correct. We endeavour to get something in by the end of May to have a conversation and then lock it down by the end of July. So there is still an interactive period that we might have to compress as a result of the integration change.

Senator MOORE—Mr Savvides, I could not let you get away without asking you a couple of questions. One of my questions is to do with historical data about people joining your fund. I know as a member that you do not ask questions about motivation or about salaries when people join.

Mr Savvides—Correct.

Senator MOORE—Is there any other way that you actually gather information? I know you have a hotline. Is there any process you use through your hotline to find out how satisfied your members are and what are their motivations? I would have thought that would be the best way of finding out.

Mr Savvides—Yes. From time to time we go out and specifically survey on issues around—maybe we are doing some work on a new product or looking at service changes and we want to know whether they are changes that people like—intention to use the internet more versus retail outlets. We will survey that kind of need in the membership base to understand whether it is desired, whether it would be favourably received. So they are one-off type activities.

We have a bedrock survey which tries to understand the awareness of our brand in the eyes of the member, their desire or inclination to stay with the brand. We are now introducing some more measures to see whether a customer would actually recommend our brand to a colleague or a friend. Through that, we understand whether we are actually improving our relationship with our customer or in fact we are upsetting them and we need to do something about it.

Senator MOORE—And also to find out why they are taking up the service.

Mr Savvides—Yes, we do some of that work—why did you buy private health insurance? What do you like about it? What are the things that you do not like about it or that annoy you? What would cause you to not have private health insurance? We do ask those questions, yes.

Senator MOORE—Because they are the kinds of key things that I think people are struggling with through this process.

Mr Savvides—Correct.

Senator MOORE—The other thing I am interested in—and this is definitely on notice for whoever in your organisation would be doing this—is historical data about the impact originally when the Medicare levy came in and the impact on your membership when it came in. It was a while ago.

Dr Watt—Do you mean the Medicare levy surcharge and not the Medicare levy?

Senator MOORE—Yes, the surcharge, the MLS. When the MLS came in, I know questions were asked about what the impact was at that stage. Previous senators were asking about what the impact would be of a change in the future and we were all struggling with that, but I want to see what happened when it came in.

Dr Watt—I suspect you are probably going to have to go to health for that.

Senator MOORE—I do the PHIAC stuff to look at the wider impact, but I wonder about your own company—the impact in Medicare, in Medibank Private itself, to see what the impact was when MLS came in—to see what your figures were, to see what your rate increases of members if there were any, and how long it took and who came in, just to get a snapshot.

Mr Savvides—I can take that on notice and come back.

Senator MOORE—I knew it was a notice question, but it is a wider kind of impact to build a full picture. Is that something I can leave with you?

Mr Savvides—Absolutely.

Senator MOORE—That would be lovely; thank you. I will be asking PHIAC, Dr Watt, so it will not just be Medibank Private, I assure you.

Dr Watt—That is fine. We would not want to overpromise.

CHAIR—Senator Bernardi, we have about three minutes so hopefully you will get both your questions in.

Senator BERNARDI—Yes, indeed. I might have three questions in that time. Mr Savvides, I will address this to you. You have a couple of board members whose term is due to expire in June.

Mr Savvides—That is correct.

Senator BERNARDI—Have those board members been notified as to whether they will be reappointed to that position or not?

Mr Savvides—There is a process underway now by the chairman of Medibank Private who is engaged in consultation with the shareholder minister about the renewal and/or replacement of those board directors.

Senator BERNARDI—So they have not been informed? Is that what you are telling me?

Mr Savvides—They have been. All the directors are engaged in the process so they know what is going on in terms of the intent, and that process is yet to be concluded.

Senator BERNARDI—But they have not been advised about whether they are going to be reappointed to that position or not as yet.

Mr Savvides—No, they know exactly what is happening.

Senator BERNARDI—They do know?

Mr Savvides—They do.

Senator BERNARDI—So will they be reappointed to that position then?

Mr Savvides—It is not appropriate to disclose that at this point.

Dr Watt—I do not think that is something Mr Savvides can comment on as the CEO of the entity. That is comment for the minister.

Senator BERNARDI—I will put it to the minister. Mr Savvides has advised us that the board members have already been advised of this, Minister, so would you be prepared to share that with us?

Senator Sherry—No. I will have to take it on notice.

Senator BERNARDI—So you do not know the answer?

Senator Sherry—I do not know. I will take it on notice.

Senator BERNARDI—Could you ask Mr Savvides what the answer is and then tell us?

Senator Sherry—No. He is the CEO. I will go to the minister responsible, who is the Minister for Finance.

Senator BERNARDI—But you are here to answer the questions.

Senator Sherry—Yes, and I do not know and I will take it on notice.

Senator BERNARDI—Mr Savvides has told us that he knows. Perhaps you could just ask him.

Senator Sherry—No. It is not his job. It is the minister's job. He is the shareholder. I will take it on notice. Thank you.

Senator BERNARDI—His job is not to, but you are representing. Thank you, Chair.

CHAIR—Any further questions will be placed on notice. People from Medibank Private are released. Thank you very much. Now we move into general questions. Can I remind committee members that we are due to have a dinner break at 6.30 and we are breaking at quarter to four for afternoon tea.

CHAIR—Do we have any general questions?

Senator CORMANN—I have some general questions in relation to that section of finance which is responsible to provide advice to the minister on the shareholder responsibilities.

CHAIR—Are they general questions?

Senator CORMANN—Yes, I am happy to take them under general questions.

Dr Watt—We would normally do that under output 2.

Senator CORMANN—Yes, I am happy to do that. It is just that the chair was looking for somebody.

CHAIR—I am not looking; I am just asking.

Senator Sherry—We are waiting.

CHAIR—We are in general questions.

Senator Sherry—We are at output group 1.1, aren't we, budget?

CHAIR—Senator Brandis apparently has some general questions, but he is not here. We could proceed then so we are not wasting time and go to output 1.1.

Dr Watt—That sounds fine.

CHAIR—Budget output 1.1. Output 1.1.1—budget advice. Are there any questions?

Senator CORMANN—Yes, I have some questions on budget advice.

CHAIR—Senator Abetz, do you have any general questions?

Senator ABETZ—Yes. If I may, who is responsible for the new strategic direction that these portfolio documents have been subjected to?

Dr Watt—It sounds ominous. I think the department of finance is.

Senator ABETZ—That is what I thought and that is why I have come along here to ask some questions. I understand that there is now a requirement, a strategic direction for 2008-09, whereby agencies were required to report in a different fashion than they have in the past. Would that be fair?

Dr Watt—A slightly different fashion, yes. I am not sure that the words are 'strategic direction', but certainly we have asked them to change some of the things to do with the way they go about reporting in the yellow book that you and I are looking at, the portfolio budget statements.

Senator ABETZ—Allow me to refer you to—albeit I am in the innovation industry science and research portfolio—if I could be given the finance document—thank you very much.

Dr Watt—Yes.

Senator Sherry—I was going to say, I am not Kim Carr.

Senator ABETZ—If we have a look at Roman numeral page 12, I am surprised that you are surprised that I used the term 'strategic direction'—

Dr Watt—I am, because you—

Senator ABETZ—Because you use it under section 1 on page Roman numeral 12. The third dot point down states:

In the *Strategic Direction for 2008-09* agencies are to present—
et cetera. Right? They are not my words—your words.

Senator Sherry—Sorry, Senator Abetz. We are just getting to the page.

Senator ABETZ—Roman numeral 12 in budget paper 1.8, finance and deregulation portfolio. Somebody else has found it.

Dr Watt—Sorry, Senator, yes.

Senator ABETZ—Now it all comes back, does it? That is good. At least we are on the same page, which is a great start.

Dr Watt—No. I think I was saying something slightly different. The way you started off saying there had been a strategic direction suggested that someone had given agencies something called a strategic direction.

Senator ABETZ—Why is it in italics?

Dr Watt—No, if I can finish: what this is saying is, in the first section of the book, which is entitled ‘strategic direction’, which relates to the agency’s overall business, the agency is supposed to tell us what it is doing. That is the way I read that. We are on the same page.

Senator ABETZ—Why is it in italics if it is just referring to a general strategic direction as opposed to a direction that has been given to all departments, because surprisingly all departments have that in the front of their portfolio budget documents?

Dr Watt—We have asked agencies to change the way in which they report. I would not however call that—I do not think we have ever called—it a strategic direction.

Senator ABETZ—What did you call it?

Dr Watt—Probably something like an estimates memorandum—something very humdrum.

Ms Campbell—The portfolio budget statements were redesigned this year to bring forward those matters for each of the portfolios. That described, as Dr Watt said, what their strategic outlook is, what they are achieving, and that title was called the strategic direction of the portfolio.

Senator ABETZ—Are you able to table that document that was provided to each of the departments as to how they ought to be presenting their documents?

Dr Watt—We would be happy to.

Ms Campbell—The document is called portfolio budget statements constructors’ kit and I think it was also provided to the committee.

Senator ABETZ—The portfolio budget statements have been revised for this year with the first purpose being to reduce the workload on agencies.

Ms Campbell—That was not the first purpose. The first purpose was to make the documents more transparent so that the information that had previously been provided could be provided in a format that was more readily accessible to readers of the documents.

Senator ABETZ—Can I invite, Ms Campbell, to read your own document, the very first line on page Roman numeral 12:

The PB Statements have been revised for the 2008-09 Budget, with significant changes made to reduce the work load on agencies...

That is not the first reason? You wrote it. I would have thought it is.

Ms Campbell—That is what is written there and the second reason—

Senator ABETZ—I am going to get on to that, but the first reason that the department nominated—

Senator Sherry—Let her answer the question and then ask another question.

Senator ABETZ—I have been.

Senator Sherry—But she had not finished her answer, so just let her answer the question.

Senator ABETZ—She wants to go on to another area which is not responsive—

Senator Sherry—She had not finished answering your question.

Ms Campbell—One of the reasons for reorganising the document was to make it easier to put together for the agencies so that, in particular, a number of sources of data could be put in the one place under the previous document, key financial information was spread throughout the document and often repeated. What we were trying to do was to allow agencies just to provide the information in one place rather than at various times throughout the document.

Senator ABETZ—Thank you for that. Can you confirm for me that the first reason enunciated by the department in its own words is that the significant changes were made ‘to reduce the workload on agencies’? Is that a correct statement? Am I reading correctly from your document?

Ms Campbell—The document does read that the workload on agencies was one of the reasons, and there is a second point as well.

Senator ABETZ—Thank you. I just wanted to get set in concrete that the first reason was to reduce the workload on agencies and then, if I may, continue on ‘to provide parliament with’—

Senator GEORGE CAMPBELL—Certainly he can read.

Senator ABETZ—Senator—I was going to say Forshaw, but I think it might be Campbell hiding behind Forshaw, so you get over your identity crisis and I will keep asking questions over here. Continuing that quote ‘the terminology to provide parliament with more targeted and comprehensive information on government expenditure.’ That euphemistically is sort of Rudd-speak for saying less is somehow more, isn’t it?

Dr Watt—No, it is not.

Senator ABETZ—Can I tell you that, in fact, in the areas that I am responsible for, for example, in the ANSTO area of the budget papers, last time around we had 32 pages of

information; this time around we have 20 pages of information, and that is a 38 per cent reduction. In relation to CSIRO, there were 24 pages under the Howard government and under the Rudd government, there are 18 pages, which is a 25 per cent reduction in size—and somehow we are told that this less information is more information, it is more transparent and more helpful and more comprehensive. So can you just explain to me how less information is more comprehensive information?

Dr Watt—I think we can.

Ms Campbell—Can I take you to the resource statement that is in the portfolio budget statements?

Senator ABETZ—What page is that on?

Ms Campbell—It is on page 15 of the finance portfolio budget statement. This resource statement includes a number of pieces of information that were previously spread throughout the old portfolio budget statements. They have been brought together in one place to allow parliament to be able to see in one table all the resources that are provided to an entity throughout that financial year. In the previous documents, they had been spread throughout a number of places and were sometimes difficult to find and sometimes duplicated. It has all been brought together to provide a greater level of transparency to parliament.

Senator ABETZ—What we are really about here—and the finance department has given the game away—is that we should be coming to Senate estimates now in our slippers and dressing gown with a cup of cocoa, because it is all about narratives and story time. Allow me to read this to you from page xii of the finance portfolio:

In the *Strategic Direction for 2008-09* agencies are to present a narrative approach rather than being restricted to a fixed number of headings. The key emphasis is on telling the agency 'story': the key strategies it is implementing to achieve its outcomes, what is involved ...

et cetera. We are into narratives, we are into stories, but then—interestingly enough—when you go over to section 2—

Senator Sherry—Is there a question here?

Senator ABETZ—Yes, because this new strategic direction, this revision, has undermined and taken away a host of information, because we have turned to story time rather than to focusing on activities and processes of agencies. Is not one of the reasons for Senate estimates to look at processes? I would have thought that was one of the fundamental reasons for Senate estimates: for us to examine processes. But we are told at the top of page xiii that it is designed to take away 'from focusing on the activities and processes of agencies'. We are going to be told the story as to the nice things they might want to achieve but, on the other hand, we are taking away from the processes that we, as senators, are in fact interested in, in pursuing how things are undertaken within departments. How does that add to transparency by taking away the processes?

Ms Campbell—If you go to section 2 of the document on page 19 of the finance portfolio budget statement, the documents then go into outcomes and planned performance. This takes the reader through the outcomes that the agency is going to carry out throughout that financial year, including key performance indicators and—importantly this year—targets for 2008-09.

Agencies then have the opportunity to provide in detail the activities that they will undertake to complete the outcomes throughout the financial year.

Senator ABETZ—That is all very interesting, but it does not tell me why you have taken away the focus on activities and processes of agencies. You admit that—right? You cannot therefore, with great respect, refer me to another section of the document. That is, unless you are saying that your reference to the other page is in contradiction of what I just read out to you. You cannot have it both ways.

Ms Campbell—The document has the strategic focus at the start which tells the strategic direction the agency is going to take—

Senator ABETZ—Yes, the narrative, the story—we know that.

CHAIR—Could we just listen to the answer, Senator Abetz.

Ms Campbell—Then, when we go to page 19 of the finance portfolio, it takes us through each of the outcomes and each of the output groups, just as the previous documents did. But there is enhanced information this year against each of those. For example, for the department of finance, output 1.1.1 is ‘Budget advice’. It details that advice—

Senator ABETZ—Chair, with great respect, this is not responsive. I want to know whether or not the document takes away from focusing on the activities and processes of agencies. Either the document does or does not. If it does, then it confirms the statement I read out. If it does not, it contradicts the statement I read out. I just want to know what the answer is, not what is in all the other pages of the document. There is some good stuff in it, let’s be agreed.

CHAIR—Senator Abetz, can I just remind you that you asked a question. With all due respect, Ms Campbell was attempting to respond to you. I think that if you were to allow her to continue with her answer you would get the information you are seeking.

Ms Campbell—Senator, the document does provide that information. There is a strategic summary—

Senator ABETZ—Sorry, which information?

Ms Campbell—The processes and activities of agencies that you were looking for. That information is provided in the document.

Senator ABETZ—But it takes away the focus, does it not? Or am I reading this wrong? Allow me to read it—

CHAIR—Allow her to answer. She has not completed her answer, Senator Abetz.

Senator ABETZ—I thought she had.

CHAIR—No, she was seeking some clarification, as I got the indication.

Senator ABETZ—All right. Sorry; if you are going to tell us further things, that is good.

Ms Campbell—Senator, I do not consider that the way the information is formatted takes away that information—in fact, I consider that it enhances that information.

Senator ABETZ—All right. Why does the document then not say: ‘Reporting towards their results and contributing to outcomes and enhancing and focusing on activities’? Why does the document tell us that it takes ‘away from focusing on the activities and processes of

agencies'? Those are the department's words, not mine. Now you are saying the 'taking away' means 'enhancing'. This really is Ruddspeak—less means more.

Senator Sherry—I think it is Abetzpeak, not Ruddspeak.

Senator ABETZ—Senator Sherry, if you are so bright then possibly you can tell us how 'taking the focus away' can possibly mean 'enhancing the focus'.

Senator Sherry—Look, I do not accept your assertion, in the very lengthy question, that it has taken away and removed information. The officer has well outlined the formatting of the documents for this year. I must say I am surprised with your line of questioning.

Senator ABETZ—You can be surprised, but some of us are actually interested in the processes and activities—

Senator Sherry—So am I. I have sat here for many years, on both sides, and I am fascinated by the processes and fascinated by all the questions and answers over the years that I have been involved. I have a great respect for the process and I have a great respect for the information that is being provided. I think it is an improvement. I do not see in any way, shape or form, given what the officers have said, that you will lack any capacity to effectively or otherwise ask your questions.

Dr Watt—As a footnote to the minister's answers: I have been coming to these estimates for six years and it is not very often that we have actually had any questions about the PBS. Whatever has happened this year seems to have sparked much more interest in it.

Senator ABETZ—The reason for that, as you well know, Dr Watt, is that certain people were trying to foist these changes onto a previous government that refused them on the basis that they would not provide the sort of transparency that should in fact be provided. That is why, if I might say, I am quite agitated by the fact that I think a new government coming in has been snowed by a department. But, Dr Watt, can I ask you—

Dr Watt—Senator, can I respond to that. That is completely incorrect. No-one, to the best of my knowledge, and certainly not anyone in the department of finance, ever endeavoured to foist these changes on any previous government, as far as I am aware. I might not have been aware of it—

Senator ABETZ—All right. I withdraw the word 'foist'.

Dr Watt—but, I am sure that if you checked that with the previous finance minister, he would confirm what I have said. Point No.1. Secondly—

Senator ABETZ—I withdraw the word 'foist'.

CHAIR—Senator, I think we should let Dr Watt finish.

Senator BRANDIS—Senator Abetz, Dr Watt is far too crafty to have to foist anything on—

CHAIR—Senator Brandis, if we could just allow Dr Watt to finish the answer to the question.

Dr Watt—Secondly, as Ms Campbell says, we do not believe there has been a reduction of information. This document is best seen as one of a suite of documents. It is primarily a

document about financials. What we have endeavoured to do with these changes is make the financials clearer and easier to understand, including bringing them all together in the one place for the first time. That resourcing table makes it much easier to understand the agency resourcing picture. As you would remember, one of the criticisms of agency resourcing is that it was very hard for members of Senate committees, including this committee, to see, in one place, what total agency resourcing was.

Senator ABETZ—Dr Watt, can I take you back to my fundamental question. Do you agree with this statement: ‘This new format of documentation has undergone significant change to re-orientate agency reporting away from focusing on the activities and processes of agencies’? Either yes or no: do you agree with that statement?

Senator Sherry—No, hang on. You cannot insist a witness answer yes or no. A witness is entitled to answer the question as they see fit.

Ms Campbell—That statement also indicates, as we have written it in the book:

... has undergone significant change to re-orientate agency reporting towards their results in contributing to outcomes and away from focusing on the activities and processes of agencies.

Senator ABETZ—Thank you for actually uttering the words. These changes are not all bad. But I think some of them are bad, and that is why I am, at this stage, focusing on what I think are the bad areas. I can understand why you are always wanting to move on to the better areas where there might be a bit more information, where it is more convenient to find the information—and congratulations on that. But when you have great difficulty in acknowledging that which your own document says, I must say I am very concerned. As a senator who has been here now for a bit over a decade, 14 years or whatever it is, I have never really seen a department so reluctant to adopt the words that are in their own document.

Senator Sherry—Senator Abetz, I can recall—you would have been here too, as was Senator Murray—when we moved to accrual accounting, which was in 1996, I think, our first year in opposition. I can recall the great difficulty we had in endeavouring to find information on specific programs. It was an extraordinarily difficult process. That process was difficult, and we had a number of meetings with Finance at the time at estimates, but we did not get into, ‘This is some great plot by Finance to hide information from us.’ It was all part of the accrual process and it was a difficult process. But it was a legitimate process. What is being outlined here are legitimate and reasonable changes being made. Unfortunately, you see everything as a plot, as an attempt to hide things or to cover things up.

Senator ABETZ—Chair, this is non-responsive to anything—

CHAIR—The minister is trying to answer the question.

Senator ABETZ—No, he is not.

Senator Sherry—I am just making the point that I think you are being overly critical and unreasonable to the department.

Senator ABETZ—There has been no question asked of the minister, Chair.

CHAIR—Well, you put a question before.

Senator ABETZ—I will move to the bottom of page xiii of your portfolio document, where it has been deemed that something was ‘of little value’, and I want to know who made the value judgement that certain information was ‘of little value’ in relation to ‘the capital budget statement’ and ‘the property, plant, equipment and intangibles statements’, so that they are ‘no longer mandatory in the financial statements’. And that is across all the portfolios. So the portfolios can now pick and choose whether or not they put this list of information into their statements. How does that add to transparency?

Mr Loudon—Part of the process in looking at the document was to see which information was of lesser value overall in providing the information that parliament requires. There was a process of looking at what different committees had raised during estimate processes, talking to agencies about what that was—

Senator MURRAY—Especially this committee!

Mr Loudon—Especially this committee. And seeing which areas were not of particularly high value, so that we could concentrate on getting the better information in the areas that the committees had raised with agencies and the focus that was required. There has been considerable commentary over the years about the lack of information focusing on outcomes. That is one of the reasons why the focus this year was very much to say, ‘Look at the outcomes and look at what the contribution to the outcomes was.’ While we used the words—probably poorly chosen—in relation to taking it away, that was to say that our focus on activities and processes in isolation of their contribution to outcomes was not providing the value requested by the committees.

Senator ABETZ—Could I suggest to you that the number of questions being asked about an area is not necessarily an indication of whether it is of higher or lesser value. But, if it is all set out, and people can understand it, the chances are they do not need to ask questions about it. Now what you are doing is giving each department the choice to simply remove that from their financial statements, and I cannot see how that, in any way, shape or form adds to transparency.

Senator Sherry—Whatever level of information, I do not think we would ever run out of questions at estimates.

Senator FIERRAVANTI-WELLS—That is not the point.

Senator ABETZ—No, that is a smart alec non-responsive—

Senator Sherry—That was the smart alec point you made in your question, and I am responding to it. We are never going to run out of questions. You have total freedom within the standing orders to ask questions—and ask away.

Senator ABETZ—That is what I am doing. I am asking: how does giving each department the opportunity to simply remove a section from their financial statements add to transparency?

Dr Watt—Let us put it this way: if you can get the focus on the most relevant and most important information, and remove things that are of lesser value, you have a more transparent document—it is easier to understand, it is easier to follow, it is easier to make sense of. Let me give you a different example.

Senator ABETZ—With respect, I am not sure that—

CHAIR—Let him continue his answer, please.

Senator ABETZ—If you insist on the example, we will go through it.

Dr Watt—If you go to Budget Paper No.1, 12 months ago you would have found three different measures of the budget balance. Budget Paper No. 1 produced on three different statements: general financial statistics, Australian accounting standards and a unified production which brought BP1 presentation into line with the presentation the states use. People said to us that having that many different presentations in the budget papers did not add to transparency; it added to confusion. So for the last several years we have been working with the Australian Accounting Standards Board to harmonise the GFS and the AASB standards. We have done that. We have used that in Budget Paper No. 1 this year. We have one harmonised measure, agreed by the Australian Account Standards Board.

Senator MURRAY—Just remind me: that was the policy of the previous government, wasn't it?

Dr Watt—It has been worked on for several years. That has to add to transparency, yet you could say there is less information in there. But it is a lot less confusing, so it actually might get used.

Senator ABETZ—Thank you. We now have an acknowledgement that we have been provided with less information—

Senator Sherry—Let me give you another example.

Senator ABETZ—No, excuse me.

Senator Sherry—I am responding to your question.

Senator ABETZ—No.

Senator Sherry—No? I can't respond to your question?

Senator ABETZ—Dr Watt had finished. I had started answering and then you decided to interrupt my next question.

Senator Sherry—No, I was being courteous.

Senator ABETZ—That *Hansard* will disclose that, Chair, surely.

CHAIR—If we want to proceed and get through the business before the committee today—and I remind senators that, if you ask a question, we are all entitled to hear the answers—I encourage people to pay the courtesy of allowing the minister to respond and then you can proceed with your next question.

Senator ABETZ—Point of order, Chair. Are you saying—

Senator Sherry—I am happy for you proceed with questions.

CHAIR—There is no point of order. I am giving the call to the minister. Can you just answer the question.

Senator Sherry—I am happy for him to continue with his question.

Senator ABETZ—I think Senator Sherry understands what the *Hansard* record will disclose.

I understand that you think, Dr Watt—and chances are you might be right—there are things of lesser value. But, with great respect, it should not be the bureaucracy that tells the parliament that which it deems to be of lesser value. All the information should be provided to us. Further on in the document, we are told:

Agencies with significant investment programs and/or balance sheets may continue using the statements to better explain their overall position. They are not mandated to do so, even in circumstances where they have significant investments.

How does that add to transparency?

Ms Campbell—In previous years there have been no clear mandatory requirements on any element of the document; some agencies have chosen to go with some statements and not include other statements. That means there is no change to previous arrangements.

Senator ABETZ—How do we determine ‘significant investments’?

Ms Campbell—Because the requirements are not mandated, that would be a decision for the portfolio agency.

Senator ABETZ—But was the term ‘significant changes’ part of the document that has just been tabled in advice to the various departments?

Ms Campbell—We will have a look at that and get back to you.

Senator ABETZ—Thank you.

Ms Campbell—Could I just clarify that these documents, of course, are estimates of financial statements. Agencies in their annual reports provide a full set of financial statements that are audited by the Auditor-General to meet the regulatory requirement and provide full transparency to the parliament.

Dr Watt—And, of course, those reports are the subject of the estimates hearings in November.

Senator ABETZ—Can I also confirm that on page 13 of your document it says:

It should also be noted that the capital budget statement and the property, plant, equipment and intangibles statements are no longer mandatory in the financial statements.

Am I to understand that the term ‘no longer’ suggests that there has been a change from the previous course of reporting?

Ms Campbell—Regarding the practice in the previous reporting, the requirements were outlined, but agencies did not always fulfil those requirements.

Senator ABETZ—So the term ‘no longer’ does not suggest that it was required before?

Ms Campbell—I do not have the guidelines from previous years with me, but I will be able to check on that. In previous years it was recommended that it be included, but for some agencies with small holdings, particularly of capital items, it was somewhat nonsensical for them to include that information.

Senator MURRAY—Can I have a clarification? The items just mentioned appear in the full audited financial statements in the annual report, don't they?

Ms Campbell—Yes.

Senator ABETZ—But they are no longer mandatory in the financial statements.

Ms Campbell—In the financial statements in the portfolio budget statement, not in the financial statements in the annual report.

Senator MURRAY—They have to appear annually but not in this budget paper.

Ms Campbell—Yes.

Senator ABETZ—I thought part of this change was about bringing all the information into one easy-to-read document, Dr Watt. That was a bad explanation earlier, wasn't it?

Dr Watt—No; all the most relevant information.

Senator ABETZ—The most relevant as deemed by?

Dr Watt—The most relevant information, as Mr Loudon and Ms Campbell said, has been deemed by extensive discussions with the committees of this parliament as to what they thought was best and most useful.

Senator ABETZ—Can I just suggest that budget statements to be prepared and significant changes to be made on the basis of reducing the workload on agencies does not give me any comfort that we will get detailed information and transparency out of this government? Can I also indicate that presenting things to us in a story or narrative fashion as opposed to dealing with the processes and activities of agencies also makes me concerned about the future. I just place on notice that we will be watching very, very carefully across all portfolios to ensure that the parliament continues to get all the information that it is entitled to.

Dr Watt—It is probably worth reflecting that length does not add up to quality of information. That is the first point.

Senator ABETZ—Less is more. We have been told that by Mr Rudd on a number of occasions.

Dr Watt—I think it is rather that more is not necessarily more and not necessarily more useful material.

Senator ABETZ—I agree with that.

Dr Watt—Secondly, in this and the next round of estimates, we will be looking at this document and the experience with it. In addition, we will certainly be willing to consult again with the various committees in order to talk about their experience with the document. Clearly, if people tell us there was significant information they would have liked to have in the document, we will look at including that. This is not a suggestion that this is set. It is an evolving document. As it evolved over the years into its previous incarnation, it changed quite a bit—it did not seem to get much more useful, but it changed quite a bit. We will certainly look at where we can make this a more useful document, if that is the case put by members and senators.

Senator ABETZ—You are saying that it is evolving; I have a concern that it is mutating. But we will see.

Senator MURRAY—I have a more positive reaction than Senator Abetz has outlined. However, the usefulness of his interrogation goes to the concern that people have when there is change and the change involves the loss of items which they might have found valuable but which you would not be aware they had found valuable. In your answer to Senator Abetz's questioning, you indicated that you would try to ascertain reaction to the budget papers so that you could continue on the continuous improvement path you are on. By 'you', I mean ultimately the minister, because he carries the responsibility for these documents and not you personally.

However, how will you get to the nub of what people actually use? How will you test the real depth of their use? In the examples that Senator Abetz gave, I heard no real attention being given to a precise item which he or his party may have found of use. In addition, over the two days of these estimates to date, I have heard no complaint of that nature in, for instance, the PM&C PBS, whereas I recall, when the Labor Party were in opposition, Senator Sherry would appear here with a very detailed examination—and that may still be to come. But how do you find out? How do you survey the needs of the parliament? Is it just through the committees or through individual senators? What do you do?

Mr Loudon—There are a number of processes. We work particularly with the secretariat of this committee and, through that, information that is coming through the other committee secretariats is fed back through after estimates hearings. We are also reliant on the reports of the estimates committees as to the issues and information that were picked up and where they were picked up. In the past we have not had discussions with individual senators. We mainly work through the secretariats in looking at these issues. Particularly because of the nature of the change that we have made—as you know, we provided a briefing to the committee secretariat and the committee in the last fortnight—we would like to continue to do that after the event. We are also making a presentation to the Joint Committee of Public Accounts and Audit in early June.

Dr Watt—Senator, there is no perfect way to answer your question, and I think you appreciate that as well as we do. But, for example, subject to the minister's agreement, we would be happy to go and talk to the JCPAA, if they would be willing to have us come along and listen to their views on what they thought the value of the new document is or whatever.

Senator MURRAY—That is where I am reaching towards. My sense of things is that shadow finance ministers vary in quality—I do not cast aspersions, but not everybody comes forward with a precise detailed view of how they want to operate in the future—and there needs to be some institutionalised mechanism for feedback as to budget quality. I am not referring to the nature of estimates, which is where senators and their parties have particular emphases; I am talking about budget quality. Would you agree that a more developed process would be helpful?

Dr Watt—In some senses, it is not really for me to agree to that, because I do not have the ability to do so.

Senator MURRAY—Except you have to react to design recommendations.

Dr Watt—Let me put it this way. I think it is important that we make these documents and the other documents in the suite of budget papers—because these are only one particular document—as easy and as simple to understand as we can. If that means getting more institutionalised views of whether they satisfy our readers’ needs, I am all in favour of that.

Senator MURRAY—I turn to my other area of general questioning. As I said, I react well to your efforts. I think every year the finance department and their minister produce a quality effort. This shows many improvements, in my view, and reacts properly to the Senate Finance and Public Administration Committee’s recommendations. One particular innovation is the resource document, Budget Paper No. 4. I did not bring my copy with me, but I do not need it. I want to know whether, following the publication of that budget paper a couple of weeks back, you have had any particular reactions to that that you would acquaint the committee with.

Ms Campbell—No, we have not had any feedback on Budget Paper No. 4 to this point.

Senator MURRAY—I am surprised by that. I think it exposes areas of resource application, if you like, in a way which has not been done before and it would put people under the spotlight. Let me ask you this question with respect to the agencies: how do they react to Budget Paper No. 4?

Ms Campbell—I cannot recall any reaction from the agencies on that. They were advised of the need to provide the information on the special appropriations and they complied and provided that information.

Senator MURRAY—In my view, it leaves them more exposed, which is a good thing if you are on the side of transparency; but not everybody would like that.

Ms Campbell—We consider that it enhances transparency—that document in particular.

Dr Watt—I think one of the tests of Budget Paper No. 4, as it stands now, will be after this round of estimates hearings rather than still very much at the beginning of them. Whether it attracts any attention in other committees and gets any commentary and use will be one indication of whether or not the changes are useful.

Senator MURRAY—The other area I want to cover in my general questions is this business of targeting. I rather like targets and benchmarks and key performance indicators; I have used them very successfully in my business life. However, you always have to watch that people actually report on targets. In other words, it is one thing to announce them; it is quite another thing to own up to them later on. In next year’s budget papers, what will be the form of reporting on such targets? If you look at the numerative side of things, the figures, you at least have the previous year and you can glance at it and see whether there has been any significant shift. Will there be a table of achievements?

Ms Campbell—The intent is that each agency will include in their annual report how they have met those targets, starting from the annual report for 2008-09 onwards.

Dr Watt—Remember that this is the start of the reporting cycle for the 2008-09 financial year. The end of the reporting cycle is the annual reports, which will be released in September-October 2009.

Senator MURRAY—The PBSs contain one slice of historical information, which is the 2007 estimated figures; they are not final. To that extent, there is a look back. Will there be at least a table in next year's PBS that says, 'This was last year's target and this is to be next year's target'? You see, it is a ready reckoner. When anyone looks at this, the first two figures they go to are what was spent last year and what is going to be spent this year. That is the automatic appraisal.

Ms Campbell—We have not finalised next year's PBS, but that is the sort of feedback we are looking for to take to the minister in that consideration. So we will take that under consideration and back to the minister.

Senator MURRAY—That is all I have under general questions, Madam Chair.

CHAIR—Senator Fifield.

Senator FIFIELD—Dr Watt, since the last estimates has there been any loss of responsibility from the Department of Finance and Deregulation or have any new responsibilities been added?

Dr Watt—There have been. From the last estimates—that was in February—the only change of responsibility would be the involvement in the COAG working group on deregulation. Responsibility for that COAG working group has moved from the Department of the Prime Minister and Cabinet to the Department of Finance and Administration.

Senator FIFIELD—So there have been no other changes of responsibility.

Senator Sherry—What about the act of grace?

Dr Watt—No. There have been some new budget measures, but—I would have to refresh my memory—I am not aware of anything that has changed our fundamental responsibilities.

Senator FIFIELD—It is just that Senator Faulkner, in his opening remarks in the PM&C section of these estimates, indicated a number of additional responsibilities which had accrued to PM&C. I am just checking that your responsibilities have not been raided or diminished in any way.

Dr Watt—I am sorry. There was one thing about the portfolio rather than the department, which was the move of the Australian Archives from Finance to PM&C. It moved in in December; it moved out in April, I think from memory.

Senator FIFIELD—A short time.

Dr Watt—And, to be perfectly fair, as a stand-alone entity in the portfolio, it was not something that I spent a huge amount of time on. I spent a little bit of time on it, but that was more in the way of additional duties rather than of fundamental responsibilities.

Senator FIFIELD—Dr Watt, one of the things that Senator Faulkner indicated is that the Audit Office, although it was already within the PM&C portfolio, would be reporting to him as the responsible minister. When was the Audit Office last located in the finance portfolio?

Dr Watt—In about 1988, by my guess. It was moved in the late eighties, I think, from the finance portfolio to the Prime Minister and Cabinet portfolio. It was certainly in PM&C in 1994, when I moved from Treasury to the portfolio. Exactly how long it had been in the portfolio before that, I am not sure. It was moved some time in the late eighties.

Senator FIFIELD—What do you think are the relative merits of having the Auditor-General's office located in PM&C rather than in Finance—or are there any merits in having it located there?

Dr Watt—The big advantage is that, in the PM&C portfolio, the Auditor-General has, I think, more clout than when it was just in the finance portfolio, and I think he is genuinely able—

Senator FIFIELD—I think you are being a bit modest about your portfolio.

Dr Watt—I think there is genuinely more clout. One problem with finance portfolios is that they are inclined to cut their own resources perhaps a bit more sharply than some others. That may not be good for an Auditor-General.

Senator FIFIELD—And the Prime Minister's portfolio is more likely to grow in size and responsibility.

Dr Watt—I would not have quite put it that way.

Senator FIFIELD—I know you do your best to keep them restrained, but it is a hard—

Dr Watt—Certainly, if I remember correctly, it moved because Peter Walsh was inclined to cut the Auditor-General's resources too much in the late eighties; I think that is why it moved.

Senator Sherry—That is probably right.

Dr Watt—It is right.

Senator FIFIELD—We all think fondly of those days.

Dr Watt—I would not say there is necessarily a lot in it. The Auditor-General and I have from time to time discussed location. I think he feels that the PM&C portfolio, for example, is as good a location as any, and I am very comfortable with that. I think it works well there. As I said, it is an on balance call, but I think it is probably the right place.

Senator FIFIELD—Would the Charter of Budget Honesty come under general questions? This question is probably more for Senator Sherry. And it is probably more a reflection on my memory, but did the current government, when in opposition, indicate that they would be making any changes to the Charter of Budget Honesty?

Senator Sherry—I am trying to think whether it involved Minister Tanner before the election. We issued a statement, because I think I recall that I was at the press conference.

Dr Watt—Operation Sunlight.

Senator BRANDIS—It was 27 November 2007, Senator Fifield.

Senator FIFIELD—Thank you, Senator Brandis.

Senator Sherry—I think it is known as Operation Sunlight.

Senator FIFIELD—Changes to the charter were part of the Operation Sunlight document.

Senator Sherry—I do not think it was known as the Operation Sunlight document then, but I think it is now known as Operation Sunlight.

Senator FIFIELD—It has taken on a sort of North Korean flavour now.

Senator Sherry—North Korean?

Senator FIFIELD—I am sure they have an Operation Sunlight in North Korea.

Senator Sherry—I do not agree with your adjectival description. I think it is a ‘tear down the Berlin Wall’ type approach; that would be my description if we are going to get into these sorts of cold war analogies.

Senator FIFIELD—Mr Tanner, tear down this wall.

Dr Watt—The Operation Sunlight document did suggest that the government would consider aspects of the charter. It commented, in particular, on the accessibility of the opposition to the costing resources of Finance and Treasury and noted that, under the charter provisions which allowed the opposition access from the time an election is called and that this provided an advantage over what had gone before, nevertheless the argument was that the opposition still suffered a disadvantage and committed the government to looking at the issue. We would expect that the government would review that later in the year.

Senator Sherry—I think there was another area—the Government Actuary. The role of the Government Actuary was to be improved and there were a range of issues.

Dr Watt—There were several things. I do not think that was part of the charter, though.

Senator Sherry—No, that is not part of the Charter of Budget Honesty, but it was part of the announcement that was made. That is one I recall because I had specific responsibility for the Government Actuary then, as I do now in government. I hope an announcement will be made about the role of the Government Actuary some time in the near future.

Senator FIFIELD—Thank you, Senator Sherry. Dr Watt, in relation to providing access to costing resources to the opposition, you said that it is something that the government was going to look at later in the year. Is it actually a commitment of government to provide access to government costing resources for the opposition in the pre-election period?

Dr Watt—I would have to go back and check the exact words, but I thought it was a commitment to review rather than a commitment. You may be right, Senator. It says:

Revitalise the Charter ... by legislating to allow the Government or Opposition to request the Secretaries ... to prepare a costing of any policies within 12 months of the last day for issue of the writs for a general election ...

That sounds like a commitment to action to me.

Senator FIFIELD—So you will be drafting something fairly soon to introduce?

Dr Watt—We will certainly be providing something to government.

Senator Sherry—We are well away from the election. We are only six months into this term.

Senator FIFIELD—That seems to be the excuse for lots of things, Senator Sherry.

Senator Sherry—It is not an excuse.

Senator FIFIELD—No, but there are things like charter letters and comments like: ‘There’s still plenty of time; it’s only been six months since the last election; there’s time for

most things.' There is also the ministerial staff code of conduct. I am just making an observation in passing.

Senator Sherry—I am not going to comment on that. We were elected for three years. We have three years to implement our program, and we are not implementing everything in the first six months.

Senator CORMANN—You will bring the charter in before the next election, will you?

Senator Sherry—I have referred to the policy and Dr Watt has referred to the policy. I know my colleague the Minister for Finance, Lindsay Tanner, very well, and it will come before him and he will deal with it.

Dr Watt—We have a timeline that the government is comfortable with for implementing the various commitments and various aspects of Operation Sunlight. There are some things we wanted to do that had to be done for this budget; there are some things for next budget; and there are some other things that do not have quite the same closely budget related issue about them, and one of them is the comments in Operation Sunlight on the *Intergenerational report* and the other is the charter. You will not be surprised, Senator, if we tell you that we focused on the things for this budget first, and the others will come in the second half of the year.

Senator Sherry—There are a couple of areas of my policy responsibility in superannuation. I made it very clear that we are not going to deliver them in the first year, because there are some very practical administration issues, which I will obviously not go through now.

Senator FIFIELD—Dr Watt, do you have a consolidated list of all of the government's election commitments for your portfolio? It is something that we had difficulty obtaining from Senator Faulkner for the government as a whole. We thought it appropriate to ask the question in that context in PM&C. But, just purely in relation to your own portfolio, is there a consolidated list of all of the election commitments for which your portfolio is responsible, and which ministers within your portfolio have responsibility for those that could be made available?

Dr Watt—We do keep what I call a running sheet of the portfolios. We are a portfolio that normally has very few election commitments, however, as you can imagine.

Senator FIFIELD—I know and you are very grateful for that.

Dr Watt—I am very grateful for that—extremely grateful.

Senator FIFIELD—If it would be possible to provide that to the committee, that would be appreciated.

Dr Watt—Sure, we can provide that.

Senator FIFIELD—I think this is probably a general question rather than one for the budget output group: whose decision was it to change the colour of the budget papers?

Dr Watt—Not mine.

Senator FIFIELD—Not yours. It is a source of great sadness that the tradition of clean, pure white budget papers has not been kept going. Was that one that Mr Swan or—

Dr Watt—I think you had better take that up with the Treasury portfolio.

Senator FIFIELD—It has been observed that the only thing that Mr Swan was allowed to do with the budget was to colour in the cover of the documents, so we will put that to the Treasury portfolio.

Senator Sherry—We were vitally concerned with what was actually written on the paper as distinct from the quality of the paper.

Senator BRANDIS—I want to ask some questions about Operation Sunlight, too, Dr Watt. Are you familiar with Mr Tanner's press release of 23 October 2005, when, as the then shadow minister, he announced Operation Sunlight?

Ms Campbell—We are just seeking it, Senator.

Dr Watt—Familiar would be too strong a word. Do I realise he announced it around that time? Yes. But have I pored over the detail? No; certainly not lately anyway.

Senator BRANDIS—When he made this announcement on 23 October 2005, he published a document called 'Operation Sunlight: enhancing budget transparency', which seems to be at least in its initial iteration a reasonably thorough program. You are familiar with that document, presumably?

Dr Watt—I am a bit more familiar with that.

Senator BRANDIS—So that is where we go to find the terms of Operation Sunlight?

Dr Watt—I would assume so.

Senator BRANDIS—I notice by the way that, in the introductory part of the document, Mr Tanner tells us that contributions were drawn from a number of experts and people who chose to provide their views in a private capacity—one of whom was Senator Murray. Do you remember that, Senator Murray?

Senator MURRAY—I would not describe myself as an expert.

Senator BRANDIS—You were described as an expert by the minister, Senator Murray.

Senator MURRAY—He was very kind. But, as you know, I am just an interested observer.

Senator BRANDIS—You are more than an interested observer; you are represented to be a co-author or a significant contributor to the Labor Party's Operation Sunlight, along with Mr Michael Potter from ACCI, who now advises the Leader of the Opposition.

Senator Sherry—It is well known that Senator Murray was asked to contribute to a number of aspects of our fiscal vigilance.

Dr Watt—It is a colourful cast, Senator.

Senator Sherry—It is a colourful cast, Dr Watt.

Senator MURRAY—I would never describe it as a colourful cast.

Senator BRANDIS—I want to take you through each of the specific undertakings made by the then opposition and the now minister and ask you what steps have been taken to implement these proposals. It is very unhelpful that Operation Sunlight is obscured by the lack of page numbers. However, the first substantive section is called 'Tightening the

outcomes and outputs framework'. On the second page, we have four commitments about what Labor will do. The commitments are not numbered either. The first dot point says:

Labor will:

Require the Department of Finance and Administration to actively vet outcomes and outputs and ensure cross-government consistency. Results will be described by target for the current year and forward estimates, the expected outcome for the previous year and the actual result for the previous year. Quantity, timeliness, and cost measures will be developed and tracked over time. Outcomes will be as detailed and meaningful as possible.

What steps have been taken specifically to implement that promise?

Dr Watt—I will pass over to Ms Campbell, who knows much more about this than I, Senator.

Senator BRANDIS—Are you the lady who is in charge of Operation Sunlight?

Ms Campbell—Operation Sunlight is one of my responsibilities.

Senator BRANDIS—You are the sunlight lady. Can you please tell us what steps have been taken specifically to implement that particular commitment?

Ms Campbell—A review of all outcomes in the Commonwealth is currently under way and will be completed by the end of 2008. We have commenced the review. This is something that will take a considerable period of time. The review will look to achieve all the objectives that are outlined there for each of the outcomes.

Senator BRANDIS—Who is conducting this review?

Ms Campbell—Finance is conducting the review. We are going out to each of the agencies and giving them guidelines, and when they come back the Minister for Finance and Deregulation will approve the outcomes.

Senator BRANDIS—Are these guidelines published guidelines?

Ms Campbell—No, they are not published at this stage.

Senator BRANDIS—Can we have a copy of them, please?

Ms Campbell—We will take that on notice, Senator.

Senator BRANDIS—Minister, is there a reason why we are making a secret of the Operation Sunlight guidelines?

Senator Sherry—We are not making a secret. We put out a very impressive Sunlight policy that you are going through.

Senator BRANDIS—It is a very impressive policy, but the implementation seems to be shrouded in darkness, Senator Sherry.

Senator Sherry—No, I think your rhetoric is shrouding things in darkness. Let me just point this out: we are six months into a three year term.

Senator BRANDIS—Six months is forever in politics.

Senator Sherry—Please let me finish.

Senator FIFIELD—In a budgeting cycle, it is a very short period.

Senator Sherry—Six months in opposition definitely feels like forever, too. I have been there.

Senator BRANDIS—Six months of the Rudd government feels like forever to me.

Senator Sherry—Let me just finish my answer, Senator Brandis, and we will make some progress. We are six months in, and the new government has correctly focused on delivering the budget. I will not go through the various parameters, because you are familiar with our approach to budget fiscal discipline et cetera in the delivery of the budget. I will take your question on notice. There is a considerable amount of work to do here in implementation. It is not possible to get everything done overnight with Sunlight, I am afraid.

Senator BRANDIS—I am not suggesting that everything should be done overnight. That is perhaps not a very good choice of words for Operation Sunlight.

Senator Sherry—I will take your question on notice.

Senator BRANDIS—However, I am surprised that you seem to have a problem with the guidelines for the implementation of Operation Sunlight.

Senator Sherry—I am not saying yes or no; I have to consult with the minister.

Senator BRANDIS—All right, perhaps you could do that at dinner time. If the minister does not have a problem with that, the light can be shed on these Operation Sunlight guidelines after dinner.

Senator Sherry—I can indicate that, unfortunately, I cannot do it at dinner time because I do have a pre-existing meeting which will not permit me to see or talk to the minister for finance. But I will make sure that my office puts in a call to see if we can get authority some time this evening.

Senator BRANDIS—That is very good of you, Minister.

Senator Sherry—I will be that cooperative.

Senator BRANDIS—Can I go back to the steps to implement dot point 1. There are going to be reviews of each agency. Officers are going to visit the agencies, are they?

Ms Campbell—Officers have already been visiting agencies and talking with them about this review. We have been waiting until after the budget because the same people who were involved in putting the budget together are required to assist in this process. From a workload perspective, we have waited until after the budget was completed.

Senator BRANDIS—I understand that. When you talk about the terms of the review, is that something different from the guidelines? What are the parameters of the review?

Ms Campbell—We have developed a set of criteria, and the current outcomes will be assessed against those criteria and enhanced to ensure that they meet those criteria working with the agencies.

Senator BRANDIS—Can I have a copy of those criteria, please?

Ms Campbell—They are the criteria we discussed.

Senator BRANDIS—You mean the criteria are the same things as the guidelines?

Ms Campbell—Yes.

Senator BRANDIS—I see. Is there something more simple than that—that is, a statement of the objectives or the purposes of this review?

Mr Loudon—The review is to look at the specification of the outcome statements to ensure—

Senator BRANDIS—The review is to look at the specification of the outcome statements?

Mr Loudon—Yes. And, as part of that, the targeted audience and the targeted result are explained in the outcome statement.

Senator BRANDIS—By the outcome statements, I take it you mean the outcome statements in the PBSs?

Mr Loudon—Yes.

Senator BRANDIS—Can I have a list of all agencies that have so far been interviewed and all agencies that are yet to be interviewed?

Mr Loudon—We have only just commenced consultation. We have only had some preliminary discussion with agencies. We have done some preliminary work with specific agencies to look at further developing how we would approach the broader task. Approximately 170 agencies are involved, and so we are taking a very consultative approach.

Senator BRANDIS—That is good. Can I have a list of all the agencies, please, that you intend to consult?

Mr Loudon—Yes.

Ms Campbell—We will need to talk to each agency who has outcomes for them to be subject to the review. As I said earlier, we have put it off until after the budget when their workloads would allow them.

Senator BRANDIS—That is fine. I just want a list of each of the—

Senator Sherry—It is all government agencies.

Mr Loudon—It is all the general government sector agencies.

Senator BRANDIS—So there is no government agency which will not be subject to this process? Is that what you are telling me? We can do it by exclusion. I just want the most efficient response to my question.

Mr Loudon—The answer is that there are two acts in which agencies are commonly gathered—the Financial Management and Accountability Act and the Commonwealth Authorities and Companies Act. Not all of those agencies are in the government general sector, and it is only the government general sector agencies which are covered by the outcomes framework.

Senator BRANDIS—Whichever is more convenient to you: either a list of all the agencies that will be consulted as part of Operation Sunlight or, if there are only a few exceptions, a list of the agencies that will be excluded from Operation Sunlight, and you can explain to me why those particular agencies are not being included in Operation Sunlight.

Senator Sherry—We can provide that on notice.

Senator BRANDIS—Thank you. You have told us that you wanted to get the budget out of the way—that is understandable—and that we are in the preliminary stages of this process. By when is it intended that the process will be completed?

Ms Campbell—It is envisaged that the process will be completed in time for the new outcome statements to be used in the 2009-10 budget.

Senator BRANDIS—Next year's budget?

Ms Campbell—Yes.

Senator BRANDIS—By when will that be necessary if that objective is to be achieved?

Ms Campbell—Early in 2009.

Senator BRANDIS—About January or so, 2009?

Ms Campbell—About January.

Dr Watt—January or February, that sort of thing, so they can be translated into the budget documents and into the estimates.

Senator BRANDIS—And will there be a document created in relation to each of these agencies, setting out the expectations of the agencies and the changes required by the government of the agencies in the presentation of the outcome statements?

Ms Campbell—In the portfolio budget statements constructors' kit, the guidance which we talked about a little earlier, we will provide guidance to agencies on how the outcomes are to be presented.

Senator BRANDIS—And that guidance will be in written form?

Ms Campbell—It will be in written form on the presentation. There will also be guidance provided to agencies on the construct of an outcome statement and those elements expected—

Senator BRANDIS—When you say 'construct', I take it you mean what has to go into it—

Ms Campbell—Yes.

Senator BRANDIS—and the way in which that is to be presented on the printed page?

Ms Campbell—That would go into the constructors' kit but also, on the outcome statement, we would have a document that said what an outcome statement needed to include.

Senator BRANDIS—Can you tell me, please, how many officers or full-time equivalent positions are going to be dedicated to this exercise?

Dr Watt—On this particular exercise we would not be able to give you as precise an estimate as that.

Senator BRANDIS—Well, approximately will do.

Dr Watt—Approximately—we would not. It is something that officers will do in the normal course of events, I think.

Senator BRANDIS—This is meant to be a new initiative—

Dr Watt—It is.

Senator BRANDIS—and the task, as it has been described here this afternoon, sounds like a reasonably big task, so I am just asking how many people are going to be involved in it.

Mr Loudon—I have a branch that looks after these issues as part of their function, and so it is an area within that branch which is leading the review currently.

Senator BRANDIS—How many officers?

Mr Loudon—At this stage there are approximately four officers working on this.

Senator BRANDIS—Four officers. And is it proposed to expand that?

Mr Loudon—As we get further into it—it is a matter of how resource-intensive it is for us, or whether we work with the agencies within portfolio groups. So there are different ways of being able to do this without substantially building large teams. We are not doing the work; we are facilitating change.

Senator BRANDIS—It seems that this is a pretty big task for four officers to undertake this work across 170 agencies.

Ms Campbell—We will be working with agencies. Agencies are obviously far better placed than us to be able to construct these outcome statements. We will be giving them the guidance on what is expected, working with them to make sure that their outcome statements meet those requirements, and then briefing the Minister for Finance and Deregulation on those statements.

Senator BRANDIS—The next commitment that it is made in the Operation Sunlight manifesto is—this is the second dot point on the unnumbered fourth page:

Instigate a systematic program of evaluation of results against targets. This will be done by the Department of Finance and Administration and be subject to performance audit by the Australian National Audit Office.

What are the results, and what are the targets there referred to? Are these spending results or, conversely, revenue results? What are we talking about?

Ms Campbell—We are looking at what the best way is to provide this information and—

Senator BRANDIS—Which information are we talking about?

Ms Campbell—The results against targets.

Senator BRANDIS—But results of what?

Ms Campbell—And that is what we are trying to do. We are looking at whether that is best to be outcomes or programs.

Senator BRANDIS—I see.

Ms Campbell—So these matters remain under consideration. As you have seen in the portfolio budget statement this year, there are targets against outcomes and outputs, and we will be having under consideration, discussing and briefing the minister on whether or not that is sufficient or whether we should be looking at program information as well.

Senator BRANDIS—And have we started that?

CHAIR—Can I just interrupt?

Senator BRANDIS—Yes, Madam Chair.

CHAIR—It might be appropriate now to take our break. We will recommence at 4 pm.

Proceedings suspended from 3.44 pm to 4.03 pm

CHAIR—Welcome back. Senator Cormann has some general questions.

Senator CORMANN—Just a few very quickly: did you provide advice as part of the budget process—that is, you, the Department of Finance and Deregulation—on the Medicare levy surcharge threshold budget measure?

Dr Watt—I will just get the head of budget group, Dr Grimes.

Dr Grimes—Yes, we did provide advice.

Senator CORMANN—Can you confirm for us on what dates you first provided advice in relation to this budget measure?

Dr Grimes—No, I would not be able to—

Senator CORMANN—Why is that?

Dr Grimes—give you that date. It would have been during the budget process, but I just do not have the date available.

Senator CORMANN—The Department of Prime Minister and Cabinet the other day like a flash was able to say, ‘11 March’. Can you take it on notice?

Dr Watt—We can take it on notice.

Senator CORMANN—And maybe provide that information before the end of this estimates?

Dr Watt—We can see what we can do.

Senator CORMANN—Did you consider the impact of that policy change on the value of the Commonwealth asset?

Senator Sherry—It is advice to government.

Senator CORMANN—So are you claiming public interest immunity?

Senator Sherry—We are not claiming public interest immunity. I am claiming on the same grounds that when you were in government advice to government. We will not be—

Senator CORMANN—I have some very generous advice from the Clerk.

Senator Kemp interjecting—

Senator Sherry—I have learnt from long experience, Senator Kemp.

Senator KEMP—You were very strongly opposed to that—

Senator Sherry—No, I was not opposed to it.

Senator KEMP—as recently as nine months ago.

Senator CORMANN—I have some very general advice from the Clerk of the Senate in relation to what is and is not an acceptable ground for refusal—

Senator KEMP—Senator Sherry used to quote that advice all the time.

Senator Sherry—No, that is not right.

Senator CORMANN—I have got here: unacceptable—

CHAIR—Can we just have one question at a time, otherwise I am finding it difficult to follow.

Senator CORMANN—I have a very specific question. I am just referring to the advice of the Clerk of the Senate, Harry Evans—unacceptable grounds:

(3) Advice to government

As with legal advice, the mere fact that information consists of advice to government is not a ground for refusing to disclose it. Again, some harm to the public interest must be established, such as prejudice to legal proceedings, disclosure of cabinet deliberations or prejudice to the Commonwealth's position in negotiations. Any general claim that advice should not be disclosed is defeated by the frequency with which governments disclose advice when they choose to do so.

I am asking you: are you claiming public interest immunity?

Senator KEMP—Very good point.

Senator Sherry—No, I have said it is advice to government and that is our position.

Senator KEMP—How you have changed your mind!

Senator CORMANN—So you do not accept the advice from the Clerk of the Senate that we are entitled to that information.

Senator Sherry—I am well aware of Mr Evans's views. You read them out. I am well aware of practice in the way those views have been interpreted in the past. It is advice to government, and I have stated my position.

Senator CORMANN—Medibank Private as a government business enterprise is obviously a major Commonwealth asset. Where in the budget papers can I find on the government's balance sheet the value of that asset? That should be publicly available information, surely.

Dr Watt—It is.

Dr Grimes—We may have someone here who can answer that question for you.

Dr Watt—It is all in our accounts.

Senator CORMANN—I have to say I looked very hard and even asked the Parliamentary Library to assist me and neither of us could find it. If you have somebody that can assist us, that would be very much appreciated. You must have hidden it.

Senator Sherry—No.

Dr Watt—I think while we can provide you with some information, the budget papers deal with the budget sector, and Medibank Private is not part of the budget sector.

Dr Grimes—The budget financial statements will reflect the value of shareholdings in government enterprises but, as Dr Watt said, that is outside the general government sector.

Senator CORMANN—Has there been an impact on the value of government shareholdings as a result of the policy change to increase the Medicare levy surcharge thresholds?

Dr Grimes—No, there is no change because they are not listed shares.

Senator CORMANN—In your annual report you do list a value—which I do not believe is the market value, incidentally—for the Commonwealth asset, which is Medibank Private. From memory of about \$800,000 which is obviously grossly undervalued. It is not market value. Clearly, as the department responsible ultimately to provide advice to the shareholder minister, you would monitor practically the value of that Commonwealth asset.

Dr Watt—We do keep an eye on the value of Commonwealth assets. We do take an interest in the value of government business enterprises but we would not have revisited that in the last two weeks.

Senator CORMANN—The value of government shareholdings is not something that, as you are providing advice on a policy measure, feeds into that process. I have said earlier when Medibank Private was here that NIB lost obviously market capitalisation of \$100 million—down from about \$460 million to \$360 million. That is more than 20 per cent reduction in value. Would you have anticipated that sort of impact on the value of your asset from the government policy changes?

Dr Watt—It is a hypothetical question, Senator.

Senator CORMANN—Why is it a hypothetical question?

Dr Watt—It is.

Senator CORMANN—But, by putting the budget papers together, aren't you trying to anticipate how the budget plan, including the value of your asset, is going to develop in the forward estimates?

Dr Watt—The focus of the budget is on the operating statements, not the balance sheet.

Senator CORMANN—So you do not—

Dr Watt—I said the focus; I did not say it was ignored. I said the focus is on the operating statements, not the balance sheet.

Senator CORMANN—So the balance sheet is not an area of concern for you as you are putting the budget together.

Dr Watt—Again, Senator, the balance sheet is something that governments do pay attention to. The previous government's commitment—and I think this government's commitment—has always been to increase net worth over the medium term. But do we apply the same day-to-day monitoring that a private sector entity does that is traded on the stock market? No.

Senator CORMANN—I put it to you that the value of the Commonwealth asset is seriously impacted by a change in government policy. Now the government might be quite prepared to take that hit, but you have to be accountable and transparent about it.

Dr Watt—There may well be an impact on the value of that asset. The interesting question is: if that is to be the case, is that the thing that should drive policy? I think the Australian government could do a great deal to maximise the value of its assets, which in the past it has historically chosen not to place as of the foremost importance.

Senator CORMANN—You made a lot of the word ‘similar’ before. I refer you back to the continuous disclosure principles which Medibank is supposed to follow in their communications with you, and you say they are similar to the continuous disclosure of the Australian Stock Exchange listing rules. Obviously, they are not going to be the same because they are not publicly listed shares.

Dr Watt—That is right.

Senator CORMANN—What do you think was envisaged to be different; where do you think?

Dr Watt—I think it is important that the Australian government stays abreast of broad changes in asset values, but do we lose anything if it takes four weeks to appraise us or six weeks to appraise us rather than two weeks of a change in asset value? No.

Senator CORMANN—What is your definition of continuous disclosure?

Dr Watt—What is my definition of continuous disclosure?

Senator CORMANN—For a government business enterprise, what is the test that you apply to the concept of continuous disclosure?

Dr Watt—I would have thought that the interesting thing is sprung something like this: the shareholder is appraised over time of broad changes in the value of the asset class and so that decisions made by the shareholder, as a result of changes that need to be made as a result of changes in the value of that asset class, can be taken properly. In other words, the important time to know if the value of the asset has changed is when you are making decisions on the basis of the value of the asset. If you are not, I do not think there is the same urgency. Let me give you an example: the previous government had a policy on the privatisation of Medibank Private. Clearly, if you were in a sale environment, you would be very concerned with the current value of the asset. The current government has decided it does not intend to privatise Medibank Private. We are not in a sale environment. So we are much less concerned on a day-to-day basis about asset values.

Senator CORMANN—But I refer you back to your own guidelines—and I will ask you for another definition. They say:

... once a GBE comes aware of any information that may have a material effect on its value, that information must be immediately provided to the Shareholder Ministers.

What is the definition of ‘immediately’?

Dr Watt—I would have thought that the answer is this: once the GBE has done the work to provide some accurate information on the change in the value as a result of the work then I am sure they will communicate it very quickly to the annual plan—

Senator CORMANN—By any dictionary definition of the word ‘immediately’, two weeks is not immediately; immediately is immediately.

Dr Watt—No. I think there is a prior step there which says, ‘once the work is done to properly assess the change in valuation—

Senator CORMANN—That is not what it says.

Dr Watt—It seems to me—

Senator CORMANN—In your guidelines, which come from your website, it says:

... once a GBE comes aware of any information that may have a material effect on its value, that information must be immediately provided to the Shareholder Ministers.

Dr Watt—I am sure once Medibank Private has done the work to assess the change, they will communicate it very quickly to shareholders.

Senator CORMANN—So you have not gone out of your way to make sure that the shareholder minister was properly advised immediately on the material impact on the value of the Medibank asset.

Dr Watt—I think that is rather a value-laden question, Senator.

Senator CORMANN—I am asking you a question.

Dr Watt—Will the shareholder minister be properly advised on the changes in the value of Medibank Private when they have done the work to properly assess their impact on the value, and will he be advised in time to ensure that any decisions he takes about the company or the entity are fed into those decisions? The answer is: yes, he will.

Senator CORMANN—That does not sound to me like immediately. That sounds to me like—

Dr Watt—Again, it is once the company is aware of the changes of value—that is where the immediate comes from. I am sure he will be—

Senator CORMANN—That is very far away from continuous disclosure similar to what applies to a publicly listed company.

Senator Sherry—Similar, but not the same.

Senator CORMANN—I would say it is very dissimilar. I would offer the proposition—

Senator Sherry—Can I—

Senator CORMANN—It is very dissimilar.

Dr Watt—Again, when you think about long-term value, I am not sure that two weeks, four weeks or six weeks makes any difference.

Senator CORMANN—But we are not talking about long-term value, are we, on this occasion?

Dr Watt—But in a sense that is what the Commonwealth does with its GBEs. It does not change its policy in relation to those GBEs on the basis of short-term variations in their perceived value, full stop.

Senator CORMANN—How do you know that it is going to be—

Senator Sherry—Let me make two points. We have already had the witness George Savvides indicate in his evidence that they have commenced the process of analysis. When

that process is completed—and it appeared to me to be a thorough process of analysis—taking into account all the factors, then the communication will come from the board to the minister. Let me just give you one other example: the Commonwealth owns property. Is it appropriate, if there is a decline in property values, for the minister to immediately be contacted on your definition of immediately? Property values come out that show a decline in property values of 10 per cent. Is it then required for the minister to be notified about the impact of the decline in property values in the ACT or anywhere else for that matter where the Commonwealth owns property overnight that night? Of course not.

Senator CORMANN—Have you got a regulation?

Senator Sherry—There has to be considered and timely analysis of the factors before a communication is entered into. That is what is happening.

Senator CORMANN—Minister, have you got a guideline that tells you that you should provide continuous disclosure similar to that which applies to Australian Stock Exchange listings in relation to property? I suspect not. But you do have exactly that requirement in relation to government business enterprises.

Senator Sherry—I and the witnesses have indicated what is a reasoned and considered process that we have argued meets those provisions.

Senator CORMANN—So essentially you are hiding the impact on the value of Medibank Private as a government asset of the government's decision to increase the Medicare levy surcharge thresholds?

Senator Sherry—No—

Senator CORMANN—You are trying to cover it up, Minister.

Senator Sherry—Let me just answer: I do not accept your description of 'cover-up'. That is your political speak, which you are entitled to, but I do not accept it. There is a value and, if and when the value changes, if after the appropriate thorough analysis that we have given evidence about, the minister will be informed. Then, if there is a change, the appropriate change will appear on the balance sheet. That will happen.

Senator CORMANN—I note that under this new government the definition of 'immediately' and 'continuous disclosure' is at least more than two weeks and with that, Madam Chair, I am happy to cede to my colleague, Senator Brandis.

Dr Watt—You might want to hang on for a tick. You asked a question about the valuation of Medibank Private on our balance sheet. Medibank Private is outside the general government sector, so we only value our investment in it rather than the value of the company. I can tell you where that is in our balance sheet. But we do not disclose it separately.

Mr Youngberry—If you refer to page 9.4 of Budget Paper No. 1, there is a line item under equity investments called investments in other public sector entities. That line item includes the general government sector investment in Medibank Private, but we do not separately disclose that amount.

Senator CORMANN—Can you tell me what proportion of that line item accords for Medibank Private?

Mr Youngberry—Not here, Senator.

Senator CORMANN—Can you tell me whether there has been any variation in that line item as a result of the policy change?

Mr Youngberry—I would have to take it on notice.

Dr Watt—We can take that on notice but I can assure you, I think the answer will be there has not been any change.

Senator CORMANN—I put it to you there should have been. If you have a private health fund, a government owned private health fund that operates in the market among 37 other health funds and when the government says that they all operate on an equal footing, then clearly it is something that you ought to be accountable and transparent about.

Senator Sherry—With due respect.

Dr Watt—Senator, I am sure when the work is done to assess the change we will be.

Senator CORMANN—But you can see on the market what sort of impact it has on the value by looking at NIB—20 per cent down since the announcement.

Dr Watt—As the measure was only announced on budget night before anyone, as Mr Savvides says, had the chance to do the work, it is not surprising that any change in the value is not reflected in those estimates.

Senator Sherry—And, as Mr Savvides indicated, there are some fundamentally different features in terms of the customer market between other private health insurances—in their marketing approach where they seek custom. There is some very different characteristics. Not all health funds are identical.

Senator CORMANN—Minister, what Mr Savvides told us was that he thinks he can do a better job at minimising the impact of the government's policy change. That is what he told us.

Senator Sherry—He did not say that.

Senator CORMANN—Just summing up on what my understanding is, the government made the pre-budget announcement on Saturday, 10 May. The markets opened on Monday, 12 May and immediately NIB had to make a disclosure to the market because their shares dropped straight away, from memory, by around about 12 or 13 per cent. They had to make another disclosure the following Monday. As I have said, now it has gone down by 20 per cent. You are telling me that that is not something that, as the department advising the shareholder minister, you are providing advice about. Surely in terms of a line item in terms of value of the government's shareholdings, that is something that is totally relevant.

Dr Watt—It will be relevant and it will be reflected, but the reason that NIB has to make those disclosures is because people trade the shares on a minute-by-minute basis.

Senator CORMANN—So you think you can hide it for longer—

Dr Watt—No-one is hiding it. There is no hiding, Senator. These things will be adjusted when we get the advice from Medibank Private about what they see the implications are. Again no-one is hiding it.

Senator CORMANN—When do you expect that to be adjusted?

Dr Watt—I would assume that any change in valuation will be taken into account—when, Tim?

Mr Youngberry—We would need to check—my understanding is the investments in other public sector entities are total assets less total liabilities. It does not reflect the market valuation.

Senator CORMANN—So it is very hard to actually get a hold of what the true value of the asset is.

Mr Youngberry—The line item will not be the market valuation of Medibank Private. It will be its total assets less its total liabilities.

Senator CORMANN—Have you got a note in your budget statements to make that point?

Mr Youngberry—We do. If you refer to page 9-16 of Budget Paper No. 1, it does talk about how the investment—

Dr Watt—Remember this is looking at Medibank from our investment point of view. There is another side as well and that is Medibank's own accounts.

Mr Lewis—Each year Medibank puts out its annual report.

Senator CORMANN—This is what I think the taxpayers of Australia, who are ultimately the shareholders of Medibank Private, are entitled to know: what is going to be the impact on the value of their asset from the time before the policy change compared to the time after the policy change? Are we at some point in time, even if immediately might be in a month's time or in two months time, going to get very clear information as to how that government policy change has impacted on the value of that government asset? That is the question.

Senator Sherry—I think we have answered it.

Senator CORMANN—So what is the answer, Minister?

Senator Sherry—We have answered it.

Senator CORMANN—So are we?

Senator Sherry—We have covered the issue—at some point in time.

Senator CORMANN—At some point in time. Can we narrow that down a bit? What is the definition of 'at some point in time'?

Senator Sherry—I cannot narrow it down, because I do not know when the analysis will be completed by Medibank. I do not know.

Senator CORMANN—So there is going to be some analysis on the value of the government's shareholding as far as it relates—

Senator Sherry—No, the analysis I was referring to was from the evidence given by Mr Savvides as to the impact.

Dr Grimes—Mr Youngberry indicated that the shares are not listed shares. They are not traded in the market. So the accounts of the Commonwealth do not reflect a share price. They reflect the balance sheet of Medibank Private. Medibank Private will update its balance sheet

for its annual accounts. They will be published later this year. The impact on the general government sector will be reflected in our final budget outcome documents and in the consolidated financial statements. In terms of the budget estimates, those estimates would be published in the Mid-Year Economic and Fiscal Outlook report.

Senator CORMANN—Thank you very much. That was not so hard, was it?

Senator BRANDIS—I do not want to take up too much more time on Operation Sunlight, but can we have the relevant officer back to the table? And I foreshadow that I want to ask some questions about GST and fuel taxation. The second topic in the paper published by Mr Tanner in 2005 is ‘Changing Budget Papers to improve their readability and usefulness’. On the second of the unnumbered pages after that topic heading, there are four dot points, the first three of which relate to the layout of the budget papers and the PBSs. Which of the first three of those dot points were adopted in the current budget?

Ms Campbell—Can I just clarify that it begins:

Labor will:

- Remodel BP No. 1 ...

Senator BRANDIS—Correct. I am assuming—I hope this is a fairly safe assumption—that we are reading from the same edition of this document.

Ms Campbell—I believe so, Senator. The first dot point remains under development and consideration. It is quite a complex recommendation and that was not one we were able to finalise before this budget.

Senator BRANDIS—So that has not been done. Will it be done, Senator Sherry?

Senator Sherry—When the evaluation consultation is completed, we will determine the format and the timing. I will discuss that with Minister Tanner.

Senator BRANDIS—But the intention is for next year’s budget?

Senator Sherry—The intention is to implement the policy. I am not going to give a commitment for the next budget.

Senator BRANDIS—Why? By the time of the next budget, you will have been in office for 18 months.

Senator Sherry—We will see, but I am not going to give an absolute commitment for the next budget.

Senator BRANDIS—Let me ask for something less. Is that the intention?

Senator Sherry—That is the intention.

Senator BRANDIS—To do each of the first three dot points?

Ms Campbell—Senator, if I can take you to the second dot point:

- List programs in the Budget Papers that sit under sub functions ...

In Budget Paper No. 1, statement No. 6, we have broken down some of the functions into subfunctions and programs to supply further detailed information there. There is further work to be done on that one as well, but we have commenced in that regard.

Senator BRANDIS—The third dot point is rather more important. You addressed that before, didn't you, Dr Watt?

Dr Watt—We have done it.

Ms Campbell—The harmonised statement between GFS and AAS.

Senator BRANDIS—So you have not made the GFS the standard?

Dr Watt—We have made the harmonised statement the standard.

Senator BRANDIS—And is that current? I am conscious of the fact that this document is three years old.

Dr Watt—Since this document was produced, the Australian Accounting Standards Board has come up with a harmonised statement.

Senator BRANDIS—So that is the current relevant standard? The fourth dot point is:

- Count the GST as a Commonwealth tax.

What has happened about that proposal?

Dr Watt—It has been done.

Ms Campbell—It was completed in December 2007 when it was included in the consolidated financial statements as a Commonwealth tax.

Senator BRANDIS—So, from here on and ever after, we will have the GST counted as the Commonwealth and not a state tax?

Senator Sherry—Well, while we are in government. We know what your practice was.

Senator BRANDIS—That was a view taken on advice at the time.

Senator Sherry—Well, the advice we had, from, I think, ABS and—where else?

Dr Watt—The ABS certainly—

Senator BRANDIS—We have had this argument at this estimates—

Senator Sherry—We have done what we promised we would do. It is a Commonwealth tax and it is down as a Commonwealth tax.

Senator BRANDIS—The next item is 'Improving the transparency of estimates'. There are two dot points:

Labor will:

- Require Treasury and Finance to publish material changes in revenue or expenses on their web sites. Consolidated and updated fiscal and cash balances will be produced and published on both the Treasury and Finance web sites every 3 months.

Has that been done?

Ms Campbell—These items are under consideration and options are being considered.

Senator BRANDIS—This might be more of a question for Senator Sherry. I understand and I make no criticism of the fact that, in order to implement these commitments, there will have to be a process of deliberation when the appropriate officials and the minister consider how best they might be done. That is fine. It is quite a different thing to say, 'We are

considering whether or not we will do it at all.' Is it still the Rudd government's position that that will be done?

Senator Sherry—It is still our intention.

Senator BRANDIS—It is your position that it will be done?

Senator Sherry—It is still our intention.

Senator BRANDIS—Is that a non-core promise?

Senator Sherry—No. That is your description.

Senator BRANDIS—You see, this is a promise. I do not want to let you off the hook, Minister. As I said, it is all very well to say, 'We need to consider how to do it.' That is fine, as long as we know that it is still a commitment that you intend to honour.

Senator Sherry—It is a commitment and it is our intention to do it. We are going through a process. I think you are being somewhat critical of the level of implementation and I think it is a little bit early in the process.

Senator BRANDIS—You have already produced a budget. It is six months down the track. That is a very long time.

Senator Sherry—That was a first budget, and the focus was on—I will not go through all the details. It was the first budget for a government, and that was the overwhelming focus of the department of finance. The other issues, as has been outlined to you, we have commenced work on. Some have been implemented.

Senator BRANDIS—The next dot point cannot be very hard:

- Mandate regular publication dates for key economic documents such as the monthly financial statement.

Has that commitment been implemented yet?

Ms Campbell—That one links to the first dot point under that section, and we are working on that at the moment.

Senator BRANDIS—In the next section, 'Expanding the reach of Budget reporting', on the second page after the heading, there is a series of commitments. Rather than delay, because time is pressing, you might care to take it on notice and provide me with a written answer in respect of each of those items.

Dr Watt—We can do it very quickly.

Senator BRANDIS—All right. Let us do it.

Ms Campbell—Special accounts: in Budget Paper No. 4 there is a register of special accounts moving to a register next year, as well as balances. Standing or special appropriations are included in Budget Paper No. 4. Tax expenditure—

Dr Watt—That is a matter for Treasury. We cannot help you with that one.

Senator BRANDIS—You can tell me what steps have been taken.

Dr Watt—You would have to ask Treasury that.

Senator BRANDIS—I am asking you. If you do not know the answer, can you take it on notice?

Dr Watt—I can take it on notice, but I will give it to the Treasury portfolio.

Senator BRANDIS—I am asking you.

Dr Watt—I do not know the answer.

Senator BRANDIS—I may ask the Treasury portfolio too, but I am asking you as well.

Dr Watt—I do not know the answer.

Senator BRANDIS—I am not criticising you for not knowing the answer.

Dr Watt—But nor would I expect to answer a question about tax matters.

Senator BRANDIS—It is not merely about tax matters, though; it is about tax expenditures—

Senator Sherry—But they are taxes. It is a tax matter.

Senator BRANDIS—Dr Watt, it is relevant to your role as secretary of the department of finance to take into account the forgone revenue from taxation expenditures.

Dr Watt—No, it is not. Sorry.

Senator Sherry—Senator Brandis, I raised tax expenditures here occasionally when I was in opposition, and I quickly learnt that I would get very little, if any, information from here. It was Treasury.

Dr Watt—But I am very happy to see the questions answered, and if—

Senator BRANDIS—All I am asking is for the questions to be answered. As I said, I do not expect you to be in a position to answer them now. On the contingency reserve—

Ms Campbell—That one has not been done, yet.

Senator BRANDIS—It will be done, Senator Sherry?

Senator Sherry—It is certainly our intention to do that, yes.

Senator BRANDIS—Improving intergenerational reporting?

Senator Sherry—Treasury?

Ms Campbell—Mainly Treasury, and Finance, in some respects. This one is a longer term—

Senator BRANDIS—Well, what is the timing on delivering this promise?

Dr Watt—Intergenerational reports are delivered every five years. That is the Charter of Budget Honesty.

Senator BRANDIS—I know.

Dr Watt—If the government were to maintain that—and that is an issue that it has not considered yet, but if they were to maintain it—we would have the next intergenerational report probably in about two or three years time.

Senator MURRAY—2012.

Dr Watt—2012—as long as that?

Senator Sherry—We had one last year, didn't we?

Dr Watt—So we have got a bit of time to do that.

Senator BRANDIS—But it may require amendments to the Charter of Budget Honesty act, may it not? The intergenerational reports are legislated for in the—

Ms Campbell—Yes they are.

Dr Watt—They are.

Senator BRANDIS—Charter of Budget Honesty act, aren't they?

Senator Sherry—They may not be.

Dr Watt—But I am not sure that these things require you to amend the legislation. I am just not sure—apart from the costing issue we talked about, which we talked about last time and which Senator Fifield raised. That would require an amendment.

Senator BRANDIS—What about the second last:

Revitalise the *Charter of Budget Honesty Act 1998* including by legislating to allow the Government or Opposition to request the Secretaries to the Departments of the Treasury and—

Dr Watt—Senator Fifield raised this while you were out. We said that. That is coming for consideration by government in the second half of the year.

Senator BRANDIS—The second half of this year?

Dr Watt—Of this calendar year, yes.

Senator BRANDIS—With an intention to give effect to it by the end of the year, Senator Sherry?

Dr Watt—The effect, in this document, is a year before the next election. So we have got a bit of time.

Senator BRANDIS—So that is still the government's intention? You are adhering to this promise, are you?

Senator Sherry—That is still our intention, yes.

Senator BRANDIS—All right. Can I turn to a different matter. I want to ask some questions about fuel taxation, and I want to explore in particular the announcement by the Assistant Treasurer, Mr Bowen, on the weekend that the government would consider reviewing the GST component, or the calculation of the fuel excise as a base for calculating the GST on fuel. Has the department of finance been asked to do any costing or modelling in relation to that?

Dr Watt—No.

Senator BRANDIS—Would you expect to be?

Dr Watt—No.

Senator BRANDIS—All right.

CHAIR—Can I just interrupt there, Senator Brandis. We seem to have exhausted the general questions area. To me, and on my advice, that comes into output 1.1.1—budget advice. Can we start moving through those outputs? Would that be helpful for the committee?

Senator BRANDIS—I am happy to do it that way. This really goes to that broad issue, Madam Chair.

Senator COLBECK—Could I come in there?

Senator BRANDIS—Yes, sure.

Senator COLBECK—I just want to go back to the questions of Senator Cormann. I just have one question in relation to—

CHAIR—And then, I take it, we can move onto outcomes? That would be helpful. Thank you.

Senator COLBECK—Dr Watt and Senator Sherry, you were saying there will be a report coming back to the relevant minister from Medibank Private, in due course—once they have done their calculations on the impact of the government's decision in the budget. Will there be a public disclosure of that information?

Dr Watt—That is something we will have to ask the minister.

Senator COLBECK—So are you happy to take that—

Dr Watt—We can take it on notice.

Senator Sherry—We are happy to take that on notice.

Senator COLBECK—Obviously that is one of the points of the questions we are asking: that we get a sense of what the impact on that particular business is going to be as a result of the decision. I think it is reasonable that we know, but I am not aware that that specific question has been asked. You have not been given any indication by Medibank Private of the time that it will take to prepare that information?

Dr Watt—No. Mr Lewis might try to answer that. I think Mr Savvides did talk about time lines, but Mr Lewis can perhaps talk to it. They did not put a date to it, but I think he was talking about it as part of their corporate planning process—

Senator Sherry—That is right.

Dr Watt—which they finish at the end of July.

Mr Lewis—I might take the opportunity to respond to an earlier question from Senator Cormann in relation to last year's corporate plan as well, because we have that information now. The corporate plan last year was submitted to the minister on 28 June 2007. Medibank, as they indicated, are in the throes of updating their corporate plan for the current year. I do not know that I have a precise date on that.

Mr Butterworth—They have been given an extension. I would imagine it is something in the order of another three or four weeks to work on their corporate plan, but that depends on how quickly the data emerges and how quickly they can analyse it.

Senator COLBECK—When did they seek the extension?

Mr Butterworth—Post-budget.

Dr Watt—Mr Butterworth, you said they had been given an extension; I think they have asked for one. Have they been formally given anything?

Mr Butterworth—I do not think they have had a formal reply from the minister yet.

Senator COLBECK—They have obviously realised that there is going to be an impact on their business due to the budget decision that has impacted on their level of preparation to meet the deadline that they have, so they have sought an extension.

Dr Watt—As Mr Savvides said, they would have been bringing a corporate plan forward in a very short period of time after the budget. Clearly, it makes sense to take stock and have a look at what impact it has rather than trying to push it through.

Mr Lewis—They are looking at the impact and they are also taking a range of strategies to the board, as Mr Savvides indicated earlier. That will go to the board, the board will then sign off on a corporate plan and that will come through to the minister.

Senator COLBECK—Was there any prior work done in the department about the potential impact on the asset of the budget decision?

Mr Lewis—No, not in Asset Management Group.

Senator COLBECK—So the decision taken by the government was taken without reference to the potential impact on one of its assets? I think Dr Watt sort of indicated that may be the way governments work, but I just want to clarify that.

Dr Watt—I think Mr Lewis is making a different point. We did not do any work on that issue, but the department of health, which has responsibility for all private health insurance funds—and we do not have that fund-style responsibility—may have done some work. But I do not know; you would have to ask them that question.

Senator COLBECK—I am aware that there was some modelling done in respect of the potential fallout from the cohort of people who hold private health insurance. I think 485,000 policyholders was the figure released. So that work was not done in Finance?

Dr Watt—No, it was made clear that modelling was done by Treasury. I think Senator Minchin picked that up in his press release yesterday.

Senator COLBECK—We will pursue that there then, learning from previous experience. I think that will do me, thanks, Chair. I would be appreciative if we could get some advice on whether or not there will be a public disclosure and also whether or not there is going to be an extension to the reporting date—which was what, 28 June?

Mr Lewis—No. The 28 June date I reported was simply the date the corporate plan was delivered last year.

Senator COLBECK—Well, what is the due date?

Mr Butterworth—There is no formal due date, but obviously something like a corporate plan is intended to help the business manage itself in the year ahead. The extent to which it goes into the relevant financial year is an operational issue for the business, so it would be typical for the business to complete its planning processes not too far into the financial year.

Dr Watt—I think Mr Savvides said it was the intention to have it finalised by the end of July.

Senator COLBECK—It would be nice to have some parameters around the time given. If there is no formal due date and you are asking for an extension to an unknown date, my issue is, ‘At what point in time do I expect to have some understanding of what is going on?’

Dr Watt—We will see what we can get you.

Senator COLBECK—Thank you.

CHAIR—We will move to output 1.1, Budget.

Senator BRANDIS—Can we be a little more flexible than that? I will ask some budget questions—all right?—but I am not going to rigidify my questions by reference to subcategories.

CHAIR—In terms of the agreement for the program today, we have to finish these output groups by 5.30 pm. But you go ahead and ask your questions.

Senator BRANDIS—I will make sure that they are finished by 5.30 pm, and I know Senators Watson and Abetz have some questions that they want to ask. I will get through what I most want to get through and then leave it to my colleagues. Can I go back quickly to Mr Bowen’s announcement about the calculation of the GST on fuel and whether it is pre- or post-excite? If a proposal were brought forward, and I understand that it is only, as the government says, currently under consideration, is that the point at which Finance would become involved in the costings?

Dr Watt—If the proposal relates to taxation issues, then the Department of Finance and Deregulation would not be involved in the costings, full stop.

Senator BRANDIS—At all?

Dr Watt—No.

Senator BRANDIS—Not at all. All right.

Dr Watt—Not unless there was something that our help was sought in relation to. That would be rare because tax matters are handled by the Treasury.

Senator BRANDIS—All right. Let me ask you, then, about the FuelWatch program. Was that a proposal, when brought forward to government, in which Finance was involved to prepare some cost estimates?

Dr Grimes—Yes. We did agreed costings for the government’s policy announcement, which was incorporated in the budget papers.

Senator BRANDIS—What was the estimated of the cost of FuelWatch?

Dr Grimes—It is in Budget Paper No. 2. It would take me a moment to find the reference. But if you will indulge me for a moment I will see if I can find it in the appendix.

Senator BRANDIS—It does not appear in the expense measures at page 183, following under the department. So where is it?

Senator Sherry—It would not be a new measure because it was announced before the budget.

Senator BRANDIS—So where is it in Budget Paper No. 2?

Dr Grimes—It is on page 291 of Budget Paper No. 2. I am just reading off the index on page 72.

Senator BRANDIS—Yes, I see it now. This includes additional advances to the ACCC.

Dr Grimes—These are the costs for the ACCC to administer the scheme.

Senator BRANDIS—What other costs are associated with FuelWatch?

Dr Watt—I do not have that information with me at the moment.

Senator BRANDIS—Are there other costs associated with it? There are, aren't there?

Dr Grimes—These are the administration costs for the measure, but I do not have that level of detail with me.

Senator BRANDIS—Can you take that question on notice and come back to me?

Dr Grimes—We can take those items on notice. I would note, however, that the detail on this would be something that you could—

Dr Watt—It is undoubtedly people, Senator. A large slice of that—

Senator BRANDIS—Sure. I just want to know, in addition to the advances to the ACCC for this proposal—which two years ago the ACCC told the Senate was unnecessary and now we are having an appropriation of \$20 million over four years—what additional costs there are. Has the ACCC been asked to absorb any of the costs within its existing budget or is it entirely being funded by new advances?

Dr Grimes—That would be something I would have to take on notice.

Senator BRANDIS—Yes. That is fine.

Dr Grimes—It may be better directed to the Treasury estimates.

Senator BRANDIS—I intend to, but can you take it on notice for me as well? Was any consideration given to the question of compliance costs, particularly by small operators, or is that not something that you would concern yourselves with?

Dr Grimes—Not within the budget area. We would not concern ourselves directly with that matter.

Senator BRANDIS—Would you concern yourself with the issue in another context?

Dr Watt—I think we might do.

Senator BRANDIS—Good.

Ms Campbell—We are just getting the appropriate officer to the table. The Department of Finance and Deregulation now includes the Office of Best Practice Regulation, which has a role in assessing proposals of a regulatory nature.

Senator BRANDIS—All right. I think that officer might have just come in. Now, you are from the Office of Best Practice Regulation, is that right?

Ms McCluskey—Yes, I am, Senator.

Senator BRANDIS—Did the Office of Best Practice Regulation assess the government's FuelWatch program from a best practice point of view? What I am particularly concerned to know is whether, if you did, what assessment you made of compliance costs for small business.

Ms McCluskey—The Department of the Treasury provided the Office of Best Practice Regulation with a regulation impact statement that was required for that proposal. We considered that where we looked at the Treasury's assessment of compliance costs, amongst other things. The office did assess that regulation impact statement as being adequate.

Senator BRANDIS—Adequate. Is that the highest grade of approval—adequate—or does that indicate something less than perfect?

Ms McCluskey—No. Certainly, 'adequate' means that it has met all the criteria. If it does not meet the criteria of adequacy, we would actually say that it cannot proceed.

Senator BRANDIS—All right. So it is binary, is it? It is either adequate or it is not adequate?

Ms McCluskey—It is inadequate.

Senator BRANDIS—That is good to know. What was the Treasury's assessment of the compliance costs, please?

Ms McCluskey—I would have to take that on notice.

Senator BRANDIS—Do you have a copy of the impact statement to hand?

Ms McCluskey—I do not have one with me.

Senator BRANDIS—Well, I am rather troubled that these questions kind of disappear into the ether. There is a great deal of interest in the community about this at the moment. I wonder if you could ask one of your officers to make a telephone call back to your office, please, so that the information can be provided by 5.30 pm.

Ms McCluskey—Certainly, we can do that.

Dr Watt—Senator, I do think that this is more appropriate for the Treasury estimates.

Senator BRANDIS—Dr Watt, I am going to ask it at the Treasury estimates.

Dr Watt—I am pleased about that.

Senator BRANDIS—But this officer has already told us all the reasons why it is relevant to ask it here—because she is familiar with the answers to the very questions I am asking.

Dr Watt—She might be familiar with them, but she is not the responsible officer. That is the Treasury.

Senator BRANDIS—That is not the point, Dr Watt. I do not want to delay the time in debating this with you. The fact is that if an officer within your department knows the answer to a proper and relevant question then the officer should provide the answer.

Dr Watt—You and I could debate that for a while, Senator.

Senator BRANDIS—I will not delay the time. I note the officer has gone to make the inquiry, and I am indebted to her. I will move on. Can I take you, please, back to Budget Paper No. 2. In the expenditure measures at page 183, under ‘Implementing the government’s deregulation agenda’, there is a nice round figure of \$1 million a year for each of the next four years. How was that figure arrived at or was it just a nice round number?

Ms Campbell—Senator, a costing was undertaken for the function to be carried out within the department, and the department of finance was asked to absorb a component of that costing, and we will—

Senator BRANDIS—What component was it asked to absorb?

Ms Campbell—Half a million dollars.

Senator BRANDIS—Per year or over the four years?

Ms Campbell—Per annum.

Senator BRANDIS—So this is going to cost, you think, \$1½ million over four years?

Ms Campbell—\$1½ million per annum, yes.

Senator BRANDIS—Per year over four years.

Ms Campbell—Yes.

Senator BRANDIS—Unless the government or the inexperienced new ministers were bamboozled and were persuaded that an extra \$1 million should be allocated to the department per annum?

Ms Campbell—The department has been given additional responsibilities.

Senator BRANDIS—What are they, please?

Ms Campbell—The Minister for Finance and Deregulation has publicly outlined the government’s deregulation agenda. That includes establishing administrative arrangements for implementation of a one-in one-out principle; and undertaking a comprehensive stocktake of existing Commonwealth regulation, which is being coordinated by Finance, to focus on identifying whether there is redundant or potentially redundant regulation within the Commonwealth. Finance is also revisiting the Banks report to consider reinvigorating those matters that the government wishes to proceed with.

Senator BRANDIS—That just means somebody rereading the Banks report, doesn’t? Why does that cost a million dollars a year?

Ms Campbell—Senator, a number of these items go towards the deregulation agenda for which the government has provided funding.

Dr Watt—I do not think it will cost us a million dollars a year to reread it, Senator. I think it will cost a good deal more than that to do what should be done with it.

Ms Campbell—It is working on the government’s deregulation agenda within the Commonwealth framework.

Senator BRANDIS—Are there any other—

Ms Campbell—Finance is also working with agencies such as the Financial Services Working Group, Treasury and ASIC on some of the specific deregulation initiatives, on simplifying product disclosure statements.

Senator BRANDIS—This is not time sensitive. It is not urgent that I know this, so would you please take on notice and provide, in a comprehensive written answer, a list of all of the steps being taken by your department in implementing the deregulation agenda, including all consultations, naming each agency or, if appropriate, each person being consulted and each measure that is being introduced. Would you do that for me, please?

Ms Campbell—We will take that on notice.

Dr Watt—It is a very comprehensive response, Senator. We will do our best.

Senator BRANDIS—I would hope it is, Dr Watt—a very comprehensive response. That is what I am looking for. I am still inspired by Operation Sunlight that—

Dr Watt—I am thinking about what large proportion of that million dollars it might take to answer the question, but anyway—

Senator BRANDIS—Senator Sherry, who sits beside you, has been a very doubting critic of public servants—including, with all due respect, of your good self—in these estimates committees in years gone by.

Senator Sherry—I am conscious of the cost. Some of my colleagues, I suspect, know—

Senator ABETZ—You would not be referring to Senator Carr, by any chance, surely?

Senator BRANDIS—Don't spend all the million dollars a year on me, please, but I think a reasonable answer to that question should not be very expensive. I want to ask some questions about the efficiency dividend. What activities of Finance have been cut back as a result of the two per cent efficiency dividend?

Dr Watt—It is not quite that clear-cut. We have stopped a number of activities; we have reduced the cost of others. We have also, at the same time, done a broad budget which was trying to take into account a number of things other than the efficiency dividend. So to pick a few things out and attribute to them the efficiency dividend of two per cent would be a touch arbitrary. However, I am happy to take it on notice and give you a full answer.

Senator BRANDIS—Let's pause towards the start of your sentence. You said, 'We've stopped a number of activities and reduced the cost of others.' Which activities have you stopped?

Dr Watt—Again, I would have to have my memory refreshed. We have stopped a number of things, for example, across the department. I can get the relevant general manager of the team.

Senator BRANDIS—Let us do this, Dr Watt: you take the following questions on notice. What activities have you stopped? What activities have you reduced the cost of, and by how much? If the cessation of those activities, or the reduction of outlays on them, has resulted in a reduction of staffing levels, what has been the reduction of staffing levels in each case? You take all of that on notice. But, nevertheless, I am sure you can give us some examples off the

top of your head of activities within your department that you have stopped. So can you give us the ones that are the most important.

Dr Watt—I can perhaps not give you the ones that are the most important but I can give you a number. I would like our CFO to mention three or four to you.

Senator BRANDIS—Yes, that is what I want. Thank you.

Mr Burton—In terms of the general staff, if you look at the staff number change from this year to next year, we have reduced staff by 32 people. Not all of that is attributable to the efficiency dividend. As Dr Watt outlined, there are a number of activities that have increased. We have taken on extra people in relation to the deregulation agenda and we have stopped a range of other activities. In my area, for instance, which is the—

Senator BRANDIS—I find it amusing that you have taken on extra people to deliver on the efficiency agenda.

Dr Watt—No, that is not what he said. We have taken on extra people to manage the additional functions. We have cut the staffing on our existing functions. It is different.
Mr Burton—Yes.

Senator BRANDIS—Perhaps a cheap shot, Dr Watt.

Dr Watt—Never!

Mr Burton—In relation to the delivery of IT services, for instance, we have reduced a number of positions. We have dropped contractors in our architecture team. This has had the effect of reducing the pace at which we can change our IT environment, but we are able to maintain it in a position that allows the department to continue to function. But, in cases of project development, we are unable to run, say, two projects in parallel; we will have to do them one at a time—that sort of thing.

Senator BRANDIS—Keep going.

Mr Burton—Those are the only ones I am familiar with. I have staff number reductions in other areas, but I am unfamiliar with the activities that have been undertaken in those areas.

Senator BRANDIS—Just give us the staff number reductions, please.

Mr Burton—In our Financial Management group the net staff reduction was nine. In FeSG, which is my area, it was six. In AGIMO, which is the government information office, it was 11.5. In the Corporate and Parliamentary Services area it was 3.5.

Senator BRANDIS—Any other headline ones, or ones that particularly stand out?

Mr Burton—We have undertaken certain activities like ceasing our executive vehicle scheme in favour of providing car allowances—

Dr Watt—No, we haven't. I am sorry, that is not strictly correct. The vehicle scheme is still there. We are encouraging people to cash out.

Mr Burton—Yes, sorry. We have reduced the activity in that area by encouraging people to cash out.

Dr Watt—One thing that might be worth mentioning is that we have substantially cut the amount of media-monitoring activity that we do. Consistent with the then opposition's policy

on media monitoring, we have reduced the level of activity by two-thirds compared with where we were in the second half of 2007.

Senator BRANDIS—No other major measures you want to mention?

Dr Watt—I am sure I have missed a great deal, but at the moment—

Senator BRANDIS—You will give that to me in writing, won't you, Dr Watt.

Dr Watt—Yes.

Mr Burton—One other that we have here is ceasing our cadet program as well. We are not funding people to undertake studies before they come to the department.

Dr Watt—We are still recruiting rapidly, but we have had reason to question the value for money of the cadet program—unfortunately, because it is a good thing to get very bright people in, but it is very expensive.

Senator BRANDIS—In your written answer you will give me the cost savings on those measures?

Dr Watt—As best we can, acknowledging that the exercise was much broader than just the efficiency dividend.

Senator BRANDIS—Right. A number of agencies sought exemptions from the efficiency dividend, did they not?

Dr Grimes—Through the budget process, consideration may have been given to the application of the efficiency dividend in some agencies.

Senator BRANDIS—I am right in thinking, am I not, that the efficiency dividend was not applied to the Department of Defence?

Dr Watt—It never has been.

Senator BRANDIS—What about to agencies?

Dr Watt—Sorry, when I say that, the efficiency dividend is applied to a small portion of Defence's activities; it has never been applied to the vast bulk of Defence's activities—that has not changed. The one-off two per cent was implemented effectively on the existing efficiency dividend base, with a couple of changes.

Senator BRANDIS—Leaving aside Defence, which agencies were exempted from the dividend?

Dr Grimes—This is from the additional two per cent dividend?

Senator BRANDIS—Yes.

Dr Grimes—We have an officer who will be able to answer those questions.

Senator BRANDIS—That is good; thank you.

Ms Wilson—The two organisations that through the budget process have been exempt from the additional two per cent efficiency dividend are the Australian Sports Commission and the Australian Prudential Regulatory Authority.

Senator BRANDIS—Have they been completely exempted?

Ms Wilson—In relation to APRA, it is the whole of APRA. In relation to the Sports Commission it is about 48 to 50 per cent, which is the proportion of their grants funding.

Senator BRANDIS—Is that delimited by category—that 48 to 50 per cent of their grant funding?

Ms Wilson—Sorry, I am not sure of the question.

Senator BRANDIS—Is that delimited by category? Are you telling me that they were exempted from the efficiency dividend in relation to some 48 or so per cent of their grant funding?

Ms Wilson—The 48 per cent represents the proportion of their grant funding.

Senator BRANDIS—That was exempted?

Ms Wilson—No, it is the total amount of their grant funding.

Dr Watt—I think Ms Wilson is saying that all their grant funding is exempt.

Ms Wilson—All their grant funding; that is right.

Senator BRANDIS—All their grant funding was exempt?

Ms Wilson—Yes.

Dr Watt—And that was 48 per cent of their overall departmental costing.

Senator BRANDIS—Staying with the Australian Sports Commission for the moment, why was that done?

Ms Wilson—It was a decision taken through the budget process.

Senator BRANDIS—What was the ground for the decision?

Dr Grimes—I think the rationale is that these are grants that are provided externally rather than dealing with internal running costs, so there is a distinction there.

Senator BRANDIS—Yes, but there are a lot of grants provided externally. Why was a special provision made for the Australian Sports Commission?

Dr Grimes—As I said, they are external grants and—

Senator BRANDIS—Yes, and?

Dr Grimes—a decision was taken by the government to apply it to the component of the Sports Commission that was more directly related to running costs.

Senator BRANDIS—Well, that does not tell me anything. Why was the decision made in relation to that category of grant funding to exempt them from the efficiency dividend when other agencies were not?

Dr Grimes—In the case of most departments, a large proportion of grant funding would be administered items, which are not subject to any of the efficiency dividends at all—not the 1.25 per cent or the two per cent efficiency dividend.

Senator BRANDIS—Yes, I understand that.

Dr Grimes—So the Australian Sports Commission, if you like, was almost in a special case because it had a substantial amount of its grants that would have otherwise been caught

by the two per cent, because they had been previously—I will make sure this is correct—covered by the 1.25 per cent efficiency dividend. So over many years the 1.25 per cent efficiency dividend was applying to sports grants by the Australian Sports Commission; to then apply two per cent on top of that, the government made a decision that that was not—

Senator BRANDIS—And when you are talking about external grants, these are grants to individual athletes?

Mr Pyne—This includes grants to sporting organisations as well as grants to athletes.

Senator BRANDIS—Right. But the Australian Sports Commission is hardly the only Commonwealth agency that makes grants to individuals or institutions or NGOs.

Dr Grimes—As I was saying before, Senator—

Senator BRANDIS—So why wasn't special provision made for them?

Dr Grimes—As I said previously, typically those grants would be made as administered items and would not be subject to the efficiency dividend at all.

Senator BRANDIS—I understand that. But why was a special provision made, because the ASC is not the only Commonwealth agency about whom that observation can be made, is it?

Dr Grimes—Maybe not to the extent though. The Sports Commission—

Senator BRANDIS—What about AusAID, for example? AusAID provides grants to NGOs.

Dr Grimes—The grants component of AusAID is not subject to the efficiency dividend. So, if you like, the unusual case is the Sports Commission having its grants previously subject to the efficiency dividend. That was the special case. So then to have the 1.25 per cent efficiency dividend apply, and then two per cent on top of that—

Senator BRANDIS—So you are telling me that the Australian Sports Commission was the only Commonwealth agency which makes external grants which were hitherto subject to the 1.25 per cent efficiency dividend?

Dr Grimes—There are some other cases where grants are paid that are subject to the 1.25 per cent efficiency dividend. The Commonwealth-State Housing Agreement grants is one that I can think of.

Senator BRANDIS—Right.

Dr Grimes—It has similarly been exempted from the two per cent efficiency dividend.

Senator BRANDIS—I asked before, which agencies were exempted from the efficiency dividend and you told me there were only two: the ASC and APRA. Are there others?

Ms Wilson—There are a small number of administered programs which have the 1.25 per cent efficiency dividend applied to them but are not being subject to the two per cent efficiency dividend.

Senator BRANDIS—I think that it is reasonably clear that that was what I meant when I asked which were exempted from the two per cent dividend.

Ms Wilson—Sorry, I assumed the first question related to agencies, and these are specific administered programs. I am happy to run through those for you, Senator.

Senator BRANDIS—Please tell me what they were. So APRA and ASC were the only agencies?

Ms Wilson—That is right.

Senator BRANDIS—All right. Well, what are the programs, please?

Ms Wilson—The Commonwealth-State Housing Agreement; the Reconnect program; the Child Care Support Program; the Youth Links program; the Job Placement, Employment and Training program; and the Employment Assistance and Other Services program.

Senator BRANDIS—Can you take on notice and provide me with the reason why, in each case, each of those agencies or programs respectively, were exempted from the efficiency dividend? Who made the decision in each case? Was it the minister? Was it at a level within the department below the minister?

Dr Watt—Those decisions are made by cabinet, Senator.

Senator BRANDIS—In each case?

Dr Watt—As far as I am aware.

Senator BRANDIS—All right.

Dr Watt—They are certainly not made at departmental level.

Senator BRANDIS—Finally, can you tell me how many reviews the Department of Finance has been asked to undertake or to provide the secretariat for, within government?

Dr Watt—We are undertaking a number of reviews. I do not know the number. That is not uncommon. We undertake a great many reviews.

Senator BRANDIS—Dr Watt, I just asked you a question.

Dr Watt—Let me finish, Senator.

Senator BRANDIS—I asked you a question: what are the number of reviews?

Dr Watt—Can you let me—

CHAIR—Can you let him answer the question.

Dr Watt—I think I can answer the question.

Senator BRANDIS—Good.

Dr Watt—We undertake a great many reviews; that is not unusual. We do, through the strategic review process—where we designate strategic reviews—provide a secretariat function for some reviews. I think at the moment there is one.

Ms Campbell—Two.

Dr Watt—There are two. Ms Campbell can tell you the names. The other review we are providing the secretariat function for is the review of whole-of-government IT. And that is in a quite different category, in a sense. It is specifically a broader mandate of review.

Senator BRANDIS—Can you help with that?

Ms Campbell—I am just looking up the exact names. One is the strategic review of the grants program—the administration of government grants.

Senator BRANDIS—Yes.

Ms Campbell—And the other one is climate change programs.

Senator BRANDIS—Programs?

Ms Campbell—Yes.

Senator BRANDIS—How many of those are there?

Ms Campbell—The review is looking at the climate change programs throughout the Commonwealth government.

Senator BRANDIS—I see: it is a single review of a multiplicity of programs.

Dr Watt—This is the idea of the strategic reviews—they look at a range of related programs, rather than program by program.

Senator BRANDIS—So that is four reviews, is it, at the moment?

Dr Watt—I think it is three.

Ms Campbell—We have grants, climate change—and did you mention the ICT?

Dr Watt—The ICT, yes I did.

Ms Campbell—And expenditure.

Dr Watt—We also have an expenditure review task force, but that is a task force that—

Senator BRANDIS—That is a constant?

Dr Watt—is a series of reviews, as well. We have added some effort there because the government has a commitment to the second-round razor gang—the second-round expenditure review process. That is leading that process. That, in itself, is conducting a series of reviews.

Senator BRANDIS—It sounds like these reviews are increasing exponentially and, as well as that, going back to the earlier evidence this afternoon—

Senator Sherry—They are producing results.

Senator BRANDIS—We do not need any gratuitous observations.

Senator Sherry—You gave a gratuitous description.

Senator BRANDIS—It was the preface to a question. There is also the evidence we had earlier this afternoon of the review of the PBSs and the various reviews created to give effect to Operation Sunlight.

Dr Watt—Whether they would be dignified with the title capital ‘r’ Review is a moot point.

Senator BRANDIS—The program has been dignified with the North Korean-sounding Operation Sunlight, so if we can dignify the program at a rhetorical level surely we can dignify the process.

Dr Watt—I think many of the things that are being done under the Operation Sunlight banner—they are not business as usual but bureaucrats do a lot of reviewing work, Senator.

Senator BRANDIS—What I would like, please—and I want you to interpret my question liberally, not pedantically—is for you to provide me, in writing, a list of all the reviews being carried out by the department at the moment or for which the department is providing a secretariat elsewhere in government or to whole-of-government reviews, and a short description of what is the task of each review. Would you do that for me please, Dr Watt?

Dr Watt—We will see what we can do.

Senator BRANDIS—You will do that for me, won't you, Dr Watt?

Dr Watt—We will do our best, Senator.

Senator BRANDIS—Thank you.

CHAIR—Is there anything further on budget advice?

Senator BRANDIS—I think Senator Watson has something.

Senator WATSON—If you would not mind walking me through a couple of follow-ups to questions raised by my colleague Senator Abetz. In relation to the new format, I think you indicated that it was to reduce the workload on agencies and to provide parliament with more targeted and comprehensive information. When I looked at the revised formats, I thought it was more in relation to meeting the requirements of the Accounting Standards Board and harmonisation between GFS and international accounting standards. I thought that was the basic tenet behind this change in format.

Ms Campbell—The financial statements that are in the portfolio budget statements are agency statements. The new standard which harmonised GFS and AAS has not yet finalised the entity level standard.

Senator WATSON—But you are working towards it, aren't you?

Ms Campbell—We are working towards it with the Australian Accounting Standards Board.

Senator WATSON—In working towards it, this report reflects that, doesn't it?

Ms Campbell—No, Senator, because it is yet to be included. This is still done on the Australian accounting standard.

Dr Watt—The Australian Accounting Standard Board has come up with a harmonised standard for the whole of government. It has not come up with a harmonised standard for individual entities of government. They are still working on that individual entity standard—

Senator WATSON—Oh. I thought you were ahead of the game.

Dr Watt—No, you cannot be ahead of the game—that is the problem—until they give us a standard. So we have got a harmonised standard for the whole of government, which we have implemented. We are still using the Australian accounting standard AAS standard for the agency reports. When they come up with a harmonised standard we will, of course, move to that consistent with our arrangements in relation to following appropriate standards.

Senator WATSON—Is this the first time you have prepared on the basis of Australian accounting standards?

Dr Watt—No.

Ms Campbell—Senator, I believe that has been in previous documents. We can check.

Dr Watt—If it has not, it should have been, because they always have been.

Senator WATSON—So your budget statements are, but the individual components are not. Is that right?

Dr Watt—No. The overall budget statements are prepared on the basis of a harmonised standard to harmonise GFS and AAS. The individual entity statements are just prepared on a AAS basis.

Ms Campbell—The financial statements within this document.

Senator WATSON—Thank you very much for that. If we go to page 94, following the ‘less work for departments’, does that mean it is less work departments but more work for some of the agencies?

Ms Campbell—In the past a lot of the data had been duplicated throughout the document and was spread throughout the document.

Senator WATSON—Yes. Tell Senator Abetz that.

Ms Campbell—What we have done is construct it so that all the information is in one place, so the agency only has to put it in one place. Previously, they had to check to make sure that they had consistency throughout the document. When they talked about numbers in the document, it often appeared three times within the document.

Senator WATSON—That is very helpful. Looking at ARIA as one example of trying to follow the message through, on page 94 the staffing level for the period to 2007-08 was 37 and, despite the budget cutbacks, it is going to 42. Are you taking on more work?

Ms Campbell—I think that is best a question for ARIA when they appear.

Dr Watt—I think the point about ARIA is that their funding is not driven by budget funding.

Ms Campbell—Some of it is. They do have a component of budget funding.

Senator WATSON—There is an appropriation.

Dr Watt—Yes.

Ms Campbell—They have a component of budget funding—

Dr Watt—Well, it is tiny.

Ms Campbell—but they also have a large amount of funding from their members. But I think it would be more accurate for them to answer those questions.

Senator WATSON—I was quite interested in page 95. I like the concept of a target of at least seven per cent. Has that been consistent over the period?

Ms Campbell—Again, I think that is probably a better question for ARIA when they appear.

Senator WATSON—Tax and fees—you are not in a position to answer those questions? Is that ARIA again?

Senator Sherry—Sorry, we have to hurry. A witness is swooping in as a result of Senator Watson's request. Are we going to ARIA now?

Senator WATSON—No.

Senator FIFIELD—No.

Senator WATSON—It looks as though most of my questions would be better answered by ARIA.

Dr Watt—We are happy to move on.

[5.22 pm]

CHAIR—If we move to Output 1.2.1—Financial Framework. Are there any questions? No. Output 1.2.2—Financial Reporting? No. We then go to Output 1.2.4—Office of Evaluation and Audit.

Senator ABETZ—Yes, thank you Chair. If I may, I have a brief bracket of questions. Thank you, Mr Plowman.

Mr Plowman—I am sorry, I did not hear the question.

Senator ABETZ—No, there hasn't been a question yet. But I assume you are the correct official to address this bracket of questions to. I understand that, by a joint media release between Mr Tanner and Ms Macklin, the review of the Northern Land Council was announced on 17 March 2008.

Mr Plowman—That is correct.

Senator ABETZ—Thank you. And I understand that the Office of Evaluation and Audit is in fact undertaking this—what do we call it: review?

Mr Plowman—We call it an audit, Senator.

Senator ABETZ—Thank you. The press release says 'a review of' but the technical term is an audit; that is fine. So you have carriage of this review/audit?

Mr Plowman—That is correct.

Senator ABETZ—This has been contracted out.

Mr Plowman—We have two consultants assisting it, because the terms of reference have two separate elements—one element on the financial aspects and one element on the governance aspect of the audit.

Senator ABETZ—And one of those was sent out by direct procurement—in other words, it was not sent out to tender. That is CN71852 for \$45,000 for a consultancy cost to a Bruce Donald, lawyer and consultant.

Mr Plowman—That is correct. That is for the governance side of the audit.

Senator ABETZ—Yes. And he was appointed without any advertising?

Mr Plowman—That is correct.

Senator ABETZ—So how did his name come to your attention?

Mr Plowman—We got advice that he was a person who had knowledge about land councils, because he had previously been a lawyer with the Central Land Council in the eighties and he has some knowledge of Indigenous affairs.

Senator ABETZ—Where did that name come from? The minister for Indigenous affairs?

Mr Plowman—His name was suggested through the office.

Senator ABETZ—Sorry, through—

Mr Plowman—Mr Donald's name was suggested through the minister for Indigenous affairs.

Senator ABETZ—Was the adviser in Ms Macklin's office, Mr Dillon, the person that forwarded that name to you?

Mr Plowman—I do not know who forwarded the name. The name was just provided, and I contacted—

Senator ABETZ—But via the office of the minister for Indigenous affairs?

Mr Plowman—Initially through there but I do not know from whom.

Senator ABETZ—Could you take that on notice for me, because I understand that there is an adviser in Ms Macklin's office who rejoices in the name of Michael Dillon. I understand—and you could check on this—that this Michael Dillon is one and the same who was employed in previous times in the Chief Minister's office in the Northern Territory.

Mr Plowman—I believe that to be correct.

Senator ABETZ—Guess what? Whilst he was in the Chief Minister's office in the Northern Territory, he engaged a consultant called Bruce Donald. So it seems that Mr Dillon is in the habit of appointing Mr Donald to government consultancies whether he works for the Northern Territory or the Australian government. I have it on good authority that Mr Dillon and Mr Donald are friends from some time back. I am wondering what processes are in place in your department to ensure that those sorts of relationships and friendships bubble to the surface and are declared. Linda Hornsey is a classic example that has come out this week. We have had Joel Fitzgibbon's wife's company being employed without going to tender. These sorts of consultancies have unfortunately become part of this government's culture within six months.

Senator Sherry—Can the officer answer the question?

Senator ABETZ—That is why I am asking what protections the department has in place to ensure that those friendships are disclosed.

CHAIR—Senator Abetz, you might wish to correct the record on the assertions you made about Minister Fitzgibbon's wife being involved.

Senator ABETZ—His adviser's wife; thank you very much. The advisers get in on the gravy train with this government as well.

Senator Sherry—You are getting a bit carried away with your rhetoric, I think.

Mr Plowman—I appointed Mr Donald because I was satisfied that Mr Donald had the qualifications and experience needed for that aspect of the audit. I did not appoint only Mr Donald; I also appointed another company—

Senator ABETZ—I am aware of that.

Mr Plowman—in the same circumstances, because of the urgency of the matter, to do the financial aspects of the audit.

Senator ABETZ—How many names were submitted to you by the Indigenous affairs minister for you to choose from?

Mr Plowman—There was only one suggestion but it was a suggestion around qualifications and experience. I also contacted Mr Donald myself. I talked to Mr Donald myself. Mr Donald is a lawyer. I felt I needed a lawyer—

Senator ABETZ—How very honourable.

Mr Plowman—I felt I needed that sort of skill for that aspect of the audit. He also had experience in the land council system, with Indigenous affairs matters more generally—

Senator ABETZ—That is all very nice—

Mr Plowman—so I felt he was the correct person for that job.

Senator Sherry—Hang on. You are getting an answer—

CHAIR—You have to let him answer. I am sorry, Senator Abetz—

Senator ABETZ—I asked a question—

Senator Sherry—And you are getting an answer.

CHAIR—Senator Abetz! Minister! We have a question before the chair and the officer was in the process of answering the question. I remind good senators to allow the witness to finish his answer.

Senator ABETZ—It has to be relevant, Chair.

CHAIR—I am sorry, Senator. As you know, because you are far more experienced than I am in these estimates matters, I cannot direct any witness to answer the question.

Senator ABETZ—Yes, but you can direct their attention to the question, which was: what do you do—

CHAIR—I remind you that the officer is in the process of trying to complete his answer. Please go ahead, Mr Plowman.

Mr Plowman—I will add that in the end any report that comes out of this, for both the governance and the financial side of the particular audit, is my report. It is not the report of any other person. It becomes a report of the director of evaluation and audit. I am responsible for the overall quality control.

Senator ABETZ—When a mate is getting \$45,000, I dare say you will not be that concerned as to whose report it is or how it comes about. My question, can I remind you, was: what do you do and what mechanisms do you have in place to ensure that these sorts of friendships are disclosed prior to these appointments being made? You have admitted that you got only one name submitted to you via—guess who—the office of the minister for Indigenous affairs. The minister has an adviser who happens to know this Mr Donald rather well. Therefore, through that mechanism, only one mate is nominated to you. How do you know that you are not having the wool pulled over your eyes in relation to friendships and relationships, and why wouldn't you seek a number of names? Are you saying there was only one lawyer capable of doing this job?

Mr Plowman—What I did consider, Senator, was that I have a panel of consultants who are able to help the office, and a tender process was used to get that panel. I also looked through that panel and considered whether other people on the panel would be able to do that particular job on the governance side. I took someone off the panel for the financial aspect of the audit. In considering the other people on the panel, I did not feel that they had the qualifications and experience necessary for that particular job.

Senator ABETZ—So you had a panel, but the Indigenous affairs minister submitted another name to you?

Mr Plowman—It was not a submission in that sense.

Senator ABETZ—A recommendation—let's not play with words—suggested Mr Donald to you, and that was the one that you happened to choose.

Mr Plowman—I felt he had the right qualifications and experience of the job, yes.

Senator FIFIELD—Did the minister's office indicate that there was a connection—a friendship—between the two of them?

Mr Plowman—No.

Senator FIFIELD—They did not declare that? They did not declare their association in any way?

Mr Plowman—It was put to me, I think—and my memory is not completely clear on this—that it was not absolutely essential that I use this person but it was a person who had relevant skills in this area. I looked at my panel, which is not an exclusive panel, and determined that that was the correct person for the job.

Senator FIFIELD—Mr Plowman, I do have some sympathy for you because, when the minister's office call and suggest a name, any public servant can read between the lines and know that a suggestion is far more than a suggestion. Public servants understandably would be concerned for their professional welfare if they did not take on board that suggestion.

Mr Plowman—I did not take it that way.

CHAIR—Senator Moore, there is a point of order before the chair.

Senator MOORE—Senator, I think that remark is over the top in terms of impugning the ministers in ministerial offices and also the impact on professional public sector workers. You do not talk about—

Senator FIFIELD—Chair, I am not—

CHAIR—Can we let Senator Moore finish?

Senator MOORE—You do not impugn people's professionalism by such a throwaway line. If you are saying that some ministers and some public sector people may have that, I am not even prepared to accept that. But to actually say that public servants would be intimidated by suggestions from ministers' offices I think is not right.

Senator ABETZ—I am sure you have counselled Senator Faulkner along those lines.

Senator FIFIELD—I was not reflecting in any way on Mr Plowman's professionalism; I was indicating that ministerial staff need to be extremely careful about what they say and the language they use to public servants so as to not put the public servants in an awkward position. My concern here is indeed for Mr Plowman and the Public Service not being put in an awkward position. If I am reflecting on anyone, it is certainly not Mr Plowman; it is a reflection on the minister's office and the way that they conduct themselves in relation to the Australian Public Service.

CHAIR—I take that point of order, but I also remind senators that there is also the way in which questions are put and the way that it is implied to the witnesses.

Senator ABETZ—Mr Plowman, did you receive a phone call?

Mr Plowman—I am sorry, Senator, I cannot remember exactly the manner of how it happened.

Senator ABETZ—Could you take that on notice for us? I think it is important whether it was written or verbal. If verbal, from whom in Minister Macklin's office did it come? If it was in writing, one would imagine a name would be on the document. But for that intervention from the minister's office, you would have undoubtedly gone through your panel to select somebody from the panel?

Mr Plowman—It is not an exclusive panel. I was looking for someone with different sorts of skills than are generally on our panel. Generally, we do evaluations and audits of funding programs looking at the governance aspect—

Senator ABETZ—So how would you have gone about that? If you were not going to select somebody from the panel, how would you then have broadcast the fact that you were looking for a particular skill set that was not represented on the panel?

Mr Plowman—In a case like this one where there was some urgency in starting quite quickly and getting some work done on the job swiftly, I would generally ring around people, talk to people and try to find the name of someone who would be suitable for that as well as, of course, going through the panel and seeing the people we have used before.

Senator ABETZ—Of course. And you were saved all that bother by a very timely phone call or communication from the minister's office to ensure that Mr Dillon's mate Mr Donald could be appointed to this \$45,000 contract.

[5.36 pm]

Australian Reward Investment Alliance

ComSuper

CHAIR—I am seeking some guidance as to whether or not there are any further questions for the Office of Evaluation and Audit. If not, we will move on to output 1.2.5, Deregulation and regulatory reform. If there is nothing further, I suggest we move on to ComSuper and ARIA.

Senator Sherry—We normally deal with Public Sector Superannuation—

CHAIR—That is right, all in the same area. We are endeavouring to have this completed by the dinner break. I also take the opportunity to advise the minister that officials for output group 2.2 down to 2.3.2 are not required. The officers for outcome 4 are not required tonight either.

Senator Sherry—What are we endeavouring to finish by dinner?

CHAIR—We are hoping to finish with ComSuper, ARIA and Public Sector Superannuation.

Senator Sherry—And then we would go to the Future Fund?

CHAIR—Tonight, yes. Those other officials can be released; they can be advised they get to go home.

Senator WATSON—My questions are not directed to ComSuper but to ARIA.

CHAIR—We are going to deal with all of them.

Senator WATSON—When ARIA permit the lending of scrip, do you ask for what purpose the scrip is being borrowed?

Mr Carrigy-Ryan—No, Senator. As I explained at the last estimates hearings, securities are lent through an arrangement with our custodian and the transaction of lending the securities is undertaken by our custodian rather than by ARIA itself.

Senator WATSON—That leaves the door open, then. It is possible that you may lend scrip for vote rental. You would be aware of that practice, would you?

Mr Carrigy-Ryan—No, Senator. There are strict guidelines on the purposes for which stock is lent under our agreement with our custodian. Our right to dividends, franking credits, bonus issues, voting rights and every other entitlement that goes with shares is preserved. We do not participate in vote renting—I think is the expression.

Senator WATSON—It goes under a number of titles; I just used a more courteous term.

Mr Carrigy-Ryan—The answer is no.

Senator WATSON—Are you aware of the SCIA and IFSA's attitude towards the lending of scrip for the purpose of vote renting?

Mr Carrigy-Ryan—Yes, I am aware of their view, Senator.

Senator WATSON—Which is?

Mr Carrigy-Ryan—My recollection of their views is that they do not support that practice?

Senator WATSON—Do you permit the lending of scrip for short-selling purposes? You do not know, do you?

Mr Carrigy-Ryan—It could be for a range of purposes, Senator.

Senator WATSON—Which include?

Mr Carrigy-Ryan—It could be to facilitate liquidity in the market and a whole range of other purposes that stock is lent for in the market. There has been a lot of press coverage and commentary on it in the last few months, as you would be aware.

Senator WATSON—When you say ‘liquidity in the market’, that stands for granted if you are allowed to lend scrip et cetera. Obviously it provides more liquidity in terms of a rising market or a falling market, doesn’t it?

Mr Carrigy-Ryan—Indeed.

Senator WATSON—Under the current rule stock lending is largely unreported. How do you report, how do you disclose and how transparent is your activity?

Mr Carrigy-Ryan—Do you mean in relation to the market or in relation to our trustees?

Senator WATSON—Both.

Mr Carrigy-Ryan—In relation to the latter, the trustees obviously receive regular reports on stock that is lent from our custodian. In relation to the wider market issue, proposals have been discussed both in the media and in other forums recently about changing disclosure requirements in relation to stock lending. Anybody we transact with is required to comply with the law in that regard, so whatever the disclosure requirements are we would naturally comply.

Senator WATSON—Just before you came in, Senator Murray unfortunately had to leave. He told me that he had some similar questions on notice but you have not answered them. Why is that?

Senator Sherry—Did they come to you or did they go to ASIC?

Mr Carrigy-Ryan—They did come to me, Senator—my apologies. They were sent through late yesterday afternoon. I have been at a regular APRA review of our funds for two days this week, so they were late going out. They did go last night and my apologies if the Senator does not have them.

Senator WATSON—When can he expect to receive those?

Senator Sherry—When they have been cleared through my office.

Senator WATSON—When they have been cleared through your office?

Senator Sherry—Yes.

Senator WATSON—How much delay is there in clearing things through your office?

Senator Sherry—I am trying to think whether I have had any questions to clear to date from the last set of estimates. I am always conscious of the delays we experienced when we were in opposition, so I will be making sure we meet the committee deadline as best I can.

Senator WATSON—Are you aware of the Reserve Bank stating that things must change in raising the level of transparency?

Mr Carrigy-Ryan—I am aware of the document issued by the Reserve Bank. I have not read the document in detail, but I am aware of the media reports of it. I do have a copy of the document.

Senator WATSON—Can you lead me through the situation as to the level of transparency that the trustees of ARIA require in relation to scrip lending?

Mr Carrigy-Ryan—Are you referring to specific reports that the trustees would get themselves, or are you referring to the level of transparency of reporting of those sorts of activities in the marketplace generally?

Senator WATSON—I am interested in ARIA's position.

Mr Carrigy-Ryan—The monthly report and the reports we receive would detail the stock that is lent, the duration of the loan and the income received as a result of that loan.

Senator WATSON—Are you aware of the impact that scrip lending can have in terms of a market that is going down and how it can depress prices?

Mr Carrigy-Ryan—I am aware of a range of views that exist about the benefits and otherwise of stock lending that are currently being debated in the market, yes.

Senator WATSON—Because of some concerns, you are battling on as if nothing has changed? Are you not changing your practices in any way?

Mr Carrigy-Ryan—No. Our stock lending policy is being reviewed by our trustees. It is currently under review.

Senator WATSON—You would be aware that one of your competitors, Equisuper, itself was a lender, also lent scrip, only to find that some of its scrip was being used for short-selling purposes, which was depressing its price. It has now withdrawn from that practice because of the impact that it had. I think I have asked you questions somewhat similar to this, but there is something unethical about this sort of practice. It cannot happen to you because you are a mutual, but you can contribute, for example, to having an adverse effect on a fund such as I have just mentioned because of the practice of short selling. Isn't there a bit of a guilt complex amongst the directors in terms of a volatile market?

Senator Sherry—I think that is a bit strong.

Senator WATSON—Come off it. People have lost millions of dollars on this, Senator Sherry, and it is about time you issued some directions.

Senator Sherry—Hang on. You are raising a couple of issues.

Senator WATSON—If it's not coming back to a legality, it is coming back to a—

CHAIR—Senator Watson, the minister was trying to answer your previous question, so can we just hear him, please. I am most interested, as I know you are.

Senator Sherry—There are two sets of issues here, Senator Watson. There are the duties of the trustees and the decisions they make, which you and I know they are entitled to make in law in accordance with SI[S] as trustees. Secondly, there are the regulatory parameters, disclosure and otherwise that may or may not need to be added to the practice of stock lending. I do not think you should put it on the trustees to have a guilt complex because they are involved in stock lending. I think that is a little strong.

Senator WATSON—No, I am sorry—

Senator Sherry—In terms of the allegation that they should have a guilt complex. I just think the description that you used of the trustees was over the top.

Senator WATSON—I am sorry, Senator Sherry. I have indicated previously that it is nothing illegal, but there is a real ethical issue here. I thought that the Commonwealth government should be leading in terms of ethical standards rather than trawling and being well behind. If you look at some of the most ethical funds in Australia, they abhor this practice and do not engage in it. It really comes back to the ethics of the board.

Senator Sherry—Firstly, I did not appoint the board; they were appointed by your government. Secondly, I respect the independence of the board and the trustees. They are independent trustees. Whilst I did not appoint them and this government did not appoint them, I do accept that they are behaving ethically. I just think that your criticism in that sense is over the top. I think it was too personal and over the top.

Senator WATSON—There is a difference between your standard of ethics and those of others who participate in the market who believe that this practice of short selling and lending of scrip is not ethical and has dire consequences in terms particularly of contributing to a falling market.

Senator Sherry—I am very well aware of the debate and discussion around this issue and a range of other practices that have been a public debate as a consequence of the market in recent months. I frankly do not think it is an issue to respond to here in ComSuper and ARIA estimates. I think ASIC—

Senator WATSON—It is not ComSuper's issue; it is ARIA's issue.

Senator Sherry—I know it is not ComSuper's issue. I am referring to the examination of these estimates of ComSuper, ARIA and public sector superannuation advice generally. I think the issue of the parameters, the discussion, the government's response around an examination of stock lending and the like is an issue for the ASIC estimates. That is where I think the discussion and question and answer would take place.

Senator WATSON—We have not examined ASIC but we are examining ARIA at the moment.

Senator Sherry—I am defending the trustees against what I consider to be an unreasonable allegation and critique.

Senator WATSON—I will say that I am pleased to say that they are reviewing—is that right?

Mr Carrigy-Ryan—That is correct.

Senator WATSON—When do you expect that review to be completed?

Mr Carrigy-Ryan—I would expect it to be completed in the next couple of months.

Senator WATSON—It is not a real priority then?

Mr Carrigy-Ryan—The trustees considered a lengthy paper at their meeting in May and will consider further papers at their meeting in June. Their deliberations are ongoing and they are reviewing the matter.

Senator WATSON—I will now ask a couple of questions referred to me by Senator Murray. Failing a formal policy, could you outline ARIA's views in respect to margin lending?

Mr Carrigy-Ryan—ARIA does not engage in margin lending.

Senator WATSON—But don't you have any views?

Mr Carrigy-Ryan—We are a regulated superannuation fund. We do not leverage the fund; we do not borrow.

Senator WATSON—No.

Mr Carrigy-Ryan—Margin lending is an activity engaged in by some market participants. We do not do it.

Senator WATSON—What about short selling? I know you do not do the short selling but when you lend scrip it is involved in short selling.

Mr Carrigy-Ryan—Sorry; could you repeat the question? Do you want to know if we—

Senator WATSON—Obviously you must have a policy or some thoughts. It would appear that you must support the concept of short selling if you lend your scrip for such a purpose.

Mr Carrigy-Ryan—There would be some hedge fund managers who are engaged by us who participate in what is known as covered short selling. That would occur.

Senator WATSON—Would there be others?

Mr Carrigy-Ryan—That practice is in accordance with the law and those managers operate under investment mandates and investment agreements entered into with ARIA. One of the requirements in those investment management agreements is that those managers comply with the law.

Senator WATSON—That is fairly wide, isn't it? Can you be more specific as to how that operation can be more transparent to the members of, say, ComSuper—who are the beneficial owners of the proceeds of the sale of the scrip, ultimately?

Mr Carrigy-Ryan—If I understand your question correctly, you are asking what sort of reports we would get from a hedge fund manager about their transactions over a period?

Senator WATSON—Yes, and do you report that sort of activity to the members in terms of reports from time to time?

Mr Carrigy-Ryan—We have fund managers all over the world in every asset class and a significant number of managers. The transactions in which our managers are engaged are voluminous in terms of reporting.

Senator WATSON—Wouldn't your members be interested in the sorts of practices that are permitted and the extent to which you, say, put limits on the amount of scrip that can be borrowed and so forth? I would have thought that would be something that a reasonably keen member of ComSuper would be interested in. You just say you have a wide range of people around the world. I would have thought you would need pretty strict guidelines to satisfy the members of ComSuper that you are working in their best interests.

Mr Carrigy-Ryan—The reports that we provide to members are done in accordance with legislation such as the Corporations Act and the SIS legislation, which has a very prescriptive form of what we are required to report to members on an annual basis.

Senator WATSON—So you do not do more than what you absolutely have to, in terms of providing assurance and the nature of how to protect members' interests and that sort of thing. I would have thought members would be very interested in that sort of thing.

Mr Carrigy-Ryan—As I said, we provide members with the information in the annual report that we are required to provide to them. We also provide an annual report to the parliament, which is tabled each year. There is a section in that report on our investment activities and the types of investments that we make. There is also a listing in that annual report—for example in the 2006-07 report on page 17 there is a list of our investment managers for that year. Again, that report complies with the requirements that are stipulated by the government, the parliament and the minister. If there was a particular requirement to report a specific matter, we would obviously do that. If there are matters of particular public interest that come up from time to time, that may cause us to report on that as well.

Senator WATSON—At the next estimates hearing, or the one following the trustee's deliberation on this question of scrip lending, when that matter is finalised, could you table that document to the parliament or to the estimates committee?

Mr Carrigy-Ryan—Sorry, can I take that question on notice?

Senator WATSON—One other question: when I was looking through the report I noticed that the number of staff engaged has gone from 37 to 42.

Mr Carrigy-Ryan—On page 94?

Senator WATSON—Yes.

Mr Carrigy-Ryan—Yes. That is an increase in our investment staff. There will not be an increase in the total cost of our investment managers. The total cost of our investment includes external and internal resources, so we pay external fund managers and we also pay internal staff. Our total cost of investment will not change. We are simply engaging more staff internally.

Senator WATSON—This information was largely produced by ARIA rather than the Department of Finance and Deregulation, is that correct?

Mr Carrigy-Ryan—In this part of the report?

Senator WATSON—Pardon?

Ms Campbell—ARIA is responsible for this component of the portfolio budget statement.

Senator WATSON—I thought it made a significant contribution to the debate. On page 95, though, ARIA has a long-term nominal target of at least seven per cent. Was that the target last year? I presume it was.

Mr Carrigy-Ryan—It is the current investment objective, yes.

Senator WATSON—And that has existed for a while.

Mr Carrigy-Ryan—Yes, that is right.

Senator WATSON—Last year, did you exceed that target?

Mr Carrigy-Ryan—Sorry, do you mean 2006-07?

Senator WATSON—Yes.

Mr Carrigy-Ryan—Yes, we did. We have exceeded our target. Our target is typically expressed as a 4½ per cent real return in the long term—that is, over time. For the relevant reporting periods—I am just looking at the annual report—for 2006-07 we certainly achieved that objective.

Senator WATSON—Perhaps next year, I think, you could enhance the reputation of the funds if that information were included there.

Ms Campbell—Sorry, Senator?

Senator WATSON—On page 95, ARIA has a long-term target of at least seven per cent. You could just explain that you have met the targets in the past.

Senator Sherry—Wouldn't that be more appropriate in the annual report? Why would you put it in both?

Senator WATSON—There is a lot of information in the annual report that is also in here, Senator Sherry, so it is a question of—

Senator Sherry—Given your interest, Senator, I will take it on notice. We will think about it.

Ms Campbell—We did indicate earlier that we will be looking at the portfolio budget statements and their usefulness moving forward.

Senator WATSON—Yes. That is all. I am quite impressed with this; it is quite handy.

CHAIR—Thank you, everyone.

Proceedings suspended from 6.01 pm to 7.34 pm

Future Fund Management Agency

CHAIR—Welcome back, Minister and officers. We are now proceeding to the Future Fund Management Agency.

Senator BRANDIS—Before we come to you, Mr Costello—Dr Watt, before dinner, I was asking you some questions in relation to advice given by the department of finance and administration in relation to the FuelWatch scheme. Since I asked you those questions earlier on, there has been a report on the Channel 9 news by Laurie Oakes based on cabinet documents from four departments, including yours, which reveal that those four departments—that is, the three central agencies of PM&C, Treasury and your department,

together with the portfolio department, the department of resources and energy—all advised the government that the introduction of the FuelWatch scheme was a bad idea because it would increase petrol prices. Did the department of finance and administration provide advice to the government in relation to the FuelWatch scheme?

Dr Watt—The department of finance and administration provides advice to governments on a number of issues. We might have.

Senator BRANDIS—Did you?

Dr Watt—We might have.

Senator BRANDIS—No, that is not an answer to my question, Dr Watt. Did you?

Dr Watt—It would have been—

Senator BRANDIS—You know you did, because you would be aware of the report and you do not doubt its veracity, do you?

Dr Watt—I am not aware of the report. I have not seen the report.

Senator BRANDIS—I will hand you a copy of the transcript of it.

Dr Watt—I would be delighted if you would. There are two further things I think I should say. Firstly, we do provide advice to government. That is advice to government and we do not comment on it. Secondly, as I assume this was not a report released by government, I do not feel I can comment on it.

Senator BRANDIS—I am not asking you to tell us what the content of your advice was. By the way, the reference to your department is marked in pencil on the second page of the transcript from the Channel 9 website of Laurie Oakes's report. I am not asking you what the content of your advice was; I know the rules. I am asking you whether the department of finance and administration provided advice to the government in relation to the FuelWatch scheme—yes or no?

Dr Watt—Yes, we provided advice.

Senator BRANDIS—Right. Now, is it also the case that the department of finance and administration provided comments in that advice in relation to the advice from the two other central agencies and the department of resources?

Dr Watt—No, Senator. That goes to the nature of our advice and I do not believe I can comment on it.

Senator BRANDIS—When was the advice provided? I am only after a date now.

Dr Watt—I would have to take that on notice because I do not know.

Senator BRANDIS—Given the public interest in this matter and its topicality, I wonder if you could arrange for that inquiry to be made now, please.

Dr Watt—I can arrange for that inquiry to be made now.

Senator BRANDIS—Thank you. There seems to be a helpful gentleman disappearing through the door with a mobile phone.

Dr Watt—I think he is a helpful gentleman, but I am not sure that is what he is going to do.

Senator BRANDIS—Thank you very much.

Senator FIFIELD—Senator Watt, from the report—

Dr Watt—I think you have upgraded me, Senator.

Senator FIFIELD—I am always happy to, Dr Watt. From the report on Channel 9 tonight, the documents referred to in the report sound as though they could be what are I think sometimes termed ‘co-ord comments’. Would that be correct?

Dr Watt—I do not know. I have not seen the report. It is possible, but I do not know.

Senator FIFIELD—Would you mind just elaborating on what coordination comments, or co-ord comments, are?

Dr Watt—In most cabinet submissions, if not all, relevant agencies provide comments on the policy that are within their area of expertise. It is a way of ensuring that government has all aspects of a proposal considered. But the government makes the final decision, not the agencies.

Senator FIFIELD—Certainly. But the co-ord comments are an important source of advice for government, particularly for a government that has spruiked the importance of getting frank and fearless advice from the bureaucracy.

Dr Watt—I am not a member of government, Senator—

Senator FIFIELD—No.

Dr Watt—so I would not want to say how government would view coordination comments, because I honestly could not.

Senator FIFIELD—But, for something such as the FuelWatch scheme, the relevant agencies or departments for coordination comments would obviously be the department of finance—

Dr Watt—I do not know, Senator.

Senator FIFIELD—Industry—

Dr Watt—I do not know what the relevant departments are.

Senator FIFIELD—Treasury—

Dr Watt—All possible, Senator.

Senator FIFIELD—Prime Minister and Cabinet—

Dr Watt—But, really, it is not my decision and not for me to comment on.

Senator FIFIELD—In addition to endeavouring to inquire as to the date of the department of finance advice, is it also possible for you to make inquiries as to whether the document that is referred to in the public reports was what would be termed ‘coordination comments’?

Dr Watt—I do not believe I can do that. It is not my document; they are not my coordination comments. I am happy, however, to tell you when we provided advice.

Senator FIFIELD—When the department of finance provided advice which would have gone into coordination comments?

Dr Watt—I will see what I can find out.

Senator FIFIELD—Because coordination comments are pulled together by Prime Minister and Cabinet rather than the department of finance, is that correct?

Dr Watt—No, each department provides its own coordination comments.

Senator FIFIELD—Okay. And they are collated together in some form?

Dr Watt—They are provided to the agency preparing the submission. They are put together by the agency preparing the submission.

Senator FIFIELD—Which, in the case of the FuelWatch scheme would be? I am just asking for your assistance as to which agency is in charge of the—

Dr Watt—It would be the responsible portfolio.

Senator FIFIELD—Which would be Treasury?

Dr Watt—I assume so.

Senator FIFIELD—That would be the responsible agency for the FuelWatch scheme.

Senator FORSHAW—Are you saying that or are you asking that?

Senator FIFIELD—I am asking Dr Watt whether Treasury would be—

Senator FORSHAW—That is the whole point. I am not sure that it is clear that that is the answer—that that is the case. I do not want you to assume that it is.

Senator FIFIELD—I am basing my assumption on the fact that Mr Bowen and Mr Swan both held a doorstep this evening on the subject of FuelWatch and both stormed out of that doorstep. That is the basis on which I am assuming that.

Senator BRANDIS—And then Mr Swan and Mr Bowen had an emergency press conference in the blue room at 6.30.

Senator FIFIELD—That is what I am referring to—out of which both Mr Bowen and Mr Swan stormed, after legitimate questions.

Dr Watt—I am unable to comment on any of that. I simply have no idea of what has occurred in the last couple of hours.

Senator Sherry—I just wanted to finalise the answer. I just note for the record that cabinet does take advice from all the relevant agencies and cabinet considers all such advice. Cabinet then makes the decision and the government then makes the relevant announcement. That is the process.

Senator BRANDIS—That is the process, but if it be true that the advice from PM&C, Treasury, Finance and the department of resources and energy was unanimously against this proposal then can you suggest to me which department of the Commonwealth—other than PM&C, Treasury, Finance, and Resources and Energy—would have more significant or weighty views to offer on the question of monitoring of movements in the petrol price than those four departments?

Senator Sherry—Cabinet has made a decision and I support the decision.

Senator BRANDIS—Of course you do. That is very proper of you.

Senator Sherry—And that is the position.

Senator BRANDIS—Of course you must. But, Senator Sherry, those are the four departments whose views would be most relevant to a decision in relation to the monitoring by the ACCC of movements in the petrol price. If the cabinet makes a decision in the face of the unanimous advice to the contrary from all four of the relevant agencies, what does that say about the way this government does business?

Senator Sherry—You are asserting some circumstances. As I said, cabinet takes advice from all the relevant agencies. The decision has been taken and I support that decision.

Senator BRANDIS—Who are the relevant agencies other than the Department of the Prime Minister and Cabinet, the Treasury, the department of energy and resources and the department of finance in relation to a policy measure about the monitoring of movements in the petrol price?

Senator Sherry—I am not a member of cabinet, so I am not aware of the agencies who would have given particular advice. Cabinet made the decision. I support the decision as a member of the ministry.

Senator BRANDIS—What does it say about the judgement of Mr Rudd and Mr Swan that they would lead the cabinet to a decision of this kind against the advice of their own departments and of all the relevant departments, who unanimously opposed the making of this decision?

Senator Sherry—The question you pose is in fact a set of assertions, claims and political rhetoric. As I said, cabinet has made the decision. I support the decision.

Senator FIFIELD—As we have seen over the last couple of days, Minister Ferguson was also opposed to the FuelWatch scheme, for the reasons that it would lead to a possible increase in price. Senator Sherry, you said that, as cabinet has taken this decision, you support the decision. Does that mean you support a scheme which official advice from the Public Service indicates would lead to increased petrol prices?

Senator Sherry—Again, as I said to Senator Brandis, you make a set of assertions, claims and political points. Cabinet has made a decision and I support the decision.

Senator FIFIELD—It is not a political point to be referring to advice from relevant Commonwealth departments who were uniformly of the view that the FuelWatch scheme would not lead to lower petrol prices and could in fact lead to higher petrol prices. That is not an assertion and it is not a political point; it is the view of the Commonwealth's own advisers.

Senator Sherry—It is your assertion. It is your set of claims. It is your set of political points. Cabinet has made a decision. I know that as a matter of fact. Whilst I am not a member of cabinet, I am a member of the ministry, and I support the decision.

Senator FIFIELD—If it emerged that the scheme did actually lead to higher petrol prices, you would still continue to support it?

Senator Sherry—I have already given you a response to the question.

Senator FIFIELD—Which is?

Senator Sherry—Cabinet made a decision. I am a member of the ministry and I support the decision.

Senator FIFIELD—Even if it leads to higher petrol prices?

Senator Sherry—Cabinet has made a decision. I am a member of the ministry and I support the decision.

Senator FIFIELD—I will take that to be that, even if this leads to higher petrol prices, you would support it, as clearly the rest of cabinet has.

Senator Sherry—That is your interpretation and assertion.

CHAIR—Senator Fifield, you have asked the question. It has been answered a number of times. We can spend the rest of the evening reiterating the same questions, but the answer will be the same.

Senator FIFIELD—I am just endeavouring to ascertain whether Senator Sherry would continue to support the FuelWatch scheme if it led to higher petrol prices.

Senator Sherry—I support the cabinet decision. You are making a political assertion or set of claims. You are entitled to do that. But cabinet has made a decision, based on the input of the various agencies, and I support that decision.

Senator BRANDIS—These are not merely political assertions, you know, Senator Sherry. These are propositions based on documents that have been authenticated by Laurie Oakes, one of the most respected and experienced journalists in the country, and published on the Channel 9 news tonight. To direct your and your officers' attention to leaked cabinet documents which contain certain advice is not a political assertion; it is simply drawing your attention to the information which the government chose to ignore in making a decision.

Senator Sherry—I have given you my view.

Senator FIFIELD—Dr Watt, when there is a leak of this sort from somewhere in the Commonwealth government, would the Public Service seek to identify the leak? Would that be the initial response—to try and find whoever it was who sought to put this information, which is clearly in the public interest, in the public domain?

Dr Watt—It is a matter for the responsible agency.

Senator FIFIELD—So would the department of finance be initiating inquiries to ensure that this leak did not come from within its own offices?

Dr Watt—We will be certainly looking at our security procedures.

Senator FIFIELD—And a dim view would be taken, I guess, of having information which is clearly in the public interest being in the public domain. Clearly someone thought that, if the Australian government is going to knowingly implement a FuelWatch scheme which will actually see petrol prices increase, despite advice to that effect, that is a pretty unreasonable thing for the Australian government to do and the Australian public should know about it.

Dr Watt—That is a very speculative question, Senator, and I do not think I am going to answer it.

Senator BRANDIS—Senator Sherry, do you remember both Mr Rudd and Mr Swan saying on several occasions within the last few days: ‘We have been advised that the result of the FuelWatch scheme will be to lower petrol prices by about 2c per litre’?

Senator Sherry—In the last few days?

Senator BRANDIS—Yes.

Senator Sherry—No, I do not.

Senator BRANDIS—I recall both Mr Rudd and Mr Swan saying in interviews that the government’s advice had been that the introduction of the FuelWatch scheme would lower petrol prices by about 2c per litre. If in fact, as we now know, the unanimous advice of all the central and relevant agencies was that the introduction of the scheme would in fact increase petrol prices, what does that say about Mr Rudd’s and Mr Swan’s honesty?

Senator Sherry—You are recasting previous questions in a different form but essentially they are the same questions, and I have given my answer.

Senator FIFIELD—Senator Sherry, do you think that Minister Ferguson was wrong in his view that the FuelWatch scheme should not have been embarked upon?

Senator Sherry—You are recasting the previous questions. I have given my answer: I support the cabinet decision.

Senator FIFIELD—Minister Ferguson was happy to share with colleagues his view that the FuelWatch scheme was not in the interests of Australian consumers, that it was going to increase petrol prices. Is that a view that you share?

Senator Sherry—Again, you are recasting the question and I have already indicated on I think seven occasions now that cabinet has made a decision. As a member of the ministry, I support that decision.

Senator FIFIELD—Senator Sherry, at this very moment, Kerry O’Brien is asking very similar questions of Treasurer Swan. I would not be surprised if Treasurer Swan was changing his position.

Senator Sherry—As a matter of fact, he is not because Treasurer Swan took over from a meeting that I left at 7.15. As far as I know, that meeting is still going, so I do not know whether that claim is correct or not.

Senator FIFIELD—I think this evening’s events may have overtaken the engagement that Mr Swan had and that he may—

Senator Sherry—I do not have any knowledge—

CHAIR—There is a point of order before the chair.

Senator FORSHAW—On a point of order, I think the questioning is starting to go to the issue of relevance. I understand the relevance of the issue, but asking the minister at the table about what might be happening on a TV program at the moment when the minister is actually not even able to watch that program is a bit beyond—

CHAIR—Can I just respond to the point of order: this afternoon I was lectured, as I am regularly, by Senator Brandis about relevance. I am not sure what relevance these questions have to the Future Fund management agency.

Senator BRANDIS—The questions are relevant to the department. Senator Sherry, if you were—

Senator FORSHAW—On the point of order, if I can make another point of order: whilst they may be may not be relevant to this department—and I think there are some doubts about some of the questions in particular that Dr Watt has raised going to what other departments may have said or done—I understood a program was agreed upon in the interests of getting through these estimates and the opposition were keen to get on and deal with the Future Fund, which was what was programmed.

Senator BRANDIS—Can I speak to the point of order, please, Madam Chairman?

CHAIR—Certainly, Senator Brandis.

Senator BRANDIS—Madam Chairman, is Senator Forshaw seriously suggesting that when a matter of significant national interest has emerged on the news over the dinner break and we have the secretary of the department, which is one of the four departments whose advice was the subject of this very important report, sitting in front of the parliament right now through this committee, by a pedantic view being taken of the agenda, the parliament should be denied the opportunity to ask these questions?

Senator FORSHAW—No. Chair, on the point of order, because the question is being directed to me through you: you can make pedantic points as much as you like, Senator Brandis. The fact is that we have now been going for pretty close to half an hour. Dr Watt has indicated that he has not seen the reports that were on the news tonight.

Senator Brandis interjecting—

Senator FORSHAW—Excuse me: ‘transcripts’? But that is not having seen the reports, the actual footage. He has answered the questions as I heard it, indicating in respect that advice was given, but most of the questions following that have been to the nature of the advice and it is not appropriate for that question or those series of questions to be answered in no matter what form. The minister has indicated very clearly on, as he said, seven or eight occasions the answers to what are now becoming a series of repetitive questions. I am not arguing at all with the right you had to raise the matter when we commenced and you know, Senator Brandis, I am not making a pedantic point. The point I am making is: it is now becoming repetitious and clearly there are other matters programmed to be dealt with tonight.

CHAIR—In relation to the points of order—

Senator FORSHAW—You are not in order to deny the opposition at all. You have had half an hour to do it.

CHAIR—For Senator Brandis to talk about people being pedantic, with the way he has come into this committee and lectured me—

Senator BRANDIS—You are meant to be impartial as the chair, Madam Chairman. Are you abandoning the impartial role of the chair?

Senator FORSHAW—Have a bit of respect for the chair and listen.

CHAIR—You have reflected on the chair about the way I have been chairing the meetings during the course of the day.

Senator FORSHAW—You are not in a banco court now, you know.

CHAIR—I would like I draw committee members' attention to the fact that we did have an agreed agenda. I have allowed, I think, latitude for you to rightly address the concerns that you have raised over the dinner break. But I am encouraging senators to move on so that we can, with the officials that are here, deal with the issue before the committee on the Future Fund Management Agency.

Senator BRANDIS—I think that is fair enough.

Senator FIFIELD—It is fair enough, Senator Polley—

Senator FORSHAW—And that was my point entirely.

Senator FIFIELD—I will just finish on the point I was on in relation to Senator Sherry.

CHAIR—I would appreciate it.

Senator FIFIELD—Before I do, I agree with Senator Brandis—I think that we would be derelict in our duty as Australian senators not to pursue this matter.

CHAIR—No-one is questioning that.

Senator FORSHAW—No-one said that you were. You have had half an hour. You have done it and nobody has objected until now.

Senator FIFIELD—Senator Sherry, my point to you was just to give you the opportunity to put your view, given that events can move fairly quickly. I would not be surprised at all if your parliamentary colleagues or your ministerial colleagues are coming out, many at a time, to declare that they themselves were never in favour of this FuelWatch scheme. I just wanted to give you the opportunity to be one of them.

CHAIR—Is there a question?

Senator Sherry—Cabinet has made a decision and I support it. In terms of your earlier comment, I can inform you that I am very confident that Mr Swan is at his meeting. I have been informed that the interview that you understand is being shown at the moment—I have no knowledge whether it is being shown or not—was a prerecord.

Senator BRANDIS—You seem to know all about this, Senator Sherry.

Senator FORSHAW—Pity I cannot ask you about advice—

Senator FIFIELD—More than you let on, Senator Sherry.

CHAIR—If we could move on—

Senator BRANDIS—You were at a meeting with the Treasurer at 7.15 pm tonight. You seem to be the man who knows everything about it.

CHAIR—Thank you very much, Senators. If we can move on to the Future Fund Management Agency—

Senator FORSHAW—Chair, I just point out that it is very unfortunate that I cannot ask about advice that was given to the previous government—

Senator BRANDIS—Well, you can't.

Senator FORSHAW—on Iraq or the Wheat Board or children overboard. I would really like to. I might take the opportunity next week to do that.

Senator BRANDIS—Madam Chairman, I am happy to move on to the Future Fund.

Senator FORSHAW—I am sure you are.

Senator BRANDIS—But there was one question I did ask to be responded to. I see the gentleman who went out of the room to make an inquiry is back.

Dr Watt—It is the wrong gentleman.

Senator BRANDIS—So that advice about the date—is it available or isn't it?

Dr Watt—We are still looking.

Senator BRANDIS—Can I say—if I may, please, Madam Chairman, through you—to Senator Sherry, for whom I have a very high personal regard: no-one is blaming Senator Sherry.

Senator FORSHAW—There is always a 'but'!

Senator BRANDIS—And it gives me absolutely no pleasure to see him squirm as a result of this spectacular act of bad faith by his more senior colleagues.

CHAIR—Senator Brandis, I think you are being quite patronising, as usual.

Senator BRANDIS—I do not think there is much evidence—

CHAIR—I do appreciate that you like to have the banter across the table. But I strongly urge—and I am now asking—that senators, until such time as the appropriate officer can be located, move onto the Future Fund Management Agency.

Senator BRANDIS—Mr Costello, how is the portfolio?

Mr Costello—It is travelling well. We thought you would be interested in it.

Senator BRANDIS—Do you have one of those helpful diagrams you had last time?

Mr Costello—No, but we do have an update.

Mr Neal—The portfolio is travelling very well. We had a return of 2.7 per cent up to the end of April. It is now, with the continued recovery in the equity markets, somewhere—

Senator BRANDIS—Is that the year to the end of April?

Mr Neal—Yes.

Senator BRANDIS—The 12 months to the end of April?

Mr Neal—The financial year to date.

Senator BRANDIS—The financial year to the end of April, okay.

Mr Neal—With the continued recovery in the equity markets, we will be up over four per cent around the middle of May.

Senator BRANDIS—All right. What is the break-up of the fund at the moment between cash, equities and any other forms of investment, by percentage and by value?

Mr Neal—We have in the region of 30 per cent in equities, around five per cent in debt instruments and the rest in cash.

Senator BRANDIS—All right, 65 per cent in cash. I should have brought the annual report that I had at the last estimates. I apologise; I neglected to bring it. By how much, in percentage terms, have the cash holdings been invested in equities and debts since you last came before the estimates committee? I thought the cash component was somewhat larger in February.

Mr Neal—I cannot recall the precise numbers in February. The reason I have given you very rounded numbers is that as markets moves these numbers change substantially.

Senator BRANDIS—Of course.

Mr Neal—I cannot tell you the percentage numbers. What I can tell you is that since we saw you last we have invested somewhere north of \$2 billion into equity markets and somewhere north of \$2 billion into debt markets over that period. So I cannot give you precise percentages but those are the broad numbers that we administered.

Senator BRANDIS—When you speak of the Future Fund, are you only speaking of the Future Fund, not the other funds under your management on similar principles?

Mr Neal—Correct.

Senator Sherry—Sorry, can we just clarify that? Did that question refer to the three announced funds in the budget or the HEEF attachment to the original fund?

Senator BRANDIS—I intended to refer to the original, yes. Of the 30 per cent invested in equities, what is the current value, roughly, of that investment today?

Mr Neal—\$14 billion.

Senator BRANDIS—What proportion of it is invested in Australian markets, and what proportion offshore?

Mr Neal—We have roughly a third in Australian equity markets.

Senator BRANDIS—Of the two-thirds off shore, what are the principal component markets, by proportion?

Mr Neal—The principal market would be North America. We currently invest in line with the world index. So we would have the majority of our assets in North America.

Senator BRANDIS—Is that almost entirely in the United States of America, or is there a substantial portfolio in Canada, as well?

Mr Costello—Mainly in the US.

Mr Neal—Yes, it is mainly in the US. We have invested in line with the size of those markets, broadly speaking. Obviously, the US is the largest market in the world so that is where the largest—

Senator BRANDIS—Indeed. All right, of that two-thirds, how much of the two-thirds is in the United States market?

Mr Neal—I cannot give you precise numbers.

Senator BRANDIS—Roughly.

Mr Neal—It is, broadly, 50 per cent of the—

Senator BRANDIS—About half. So it is about a third in the US, a third in Australia and a third elsewhere, is it?

Mr Neal—That would be about right.

Senator BRANDIS—I am not going to disaggregate this ad infinitum, but, of the third invested elsewhere than Australia and the US, where are the principal locations?

Mr Neal—It would be spread right across the rest of the globe—right through the major European markets. We have diversified the portfolio right across Asia and other developing markets.

Senator BRANDIS—You are satisfied, obviously, that that is the appropriate weighting and spread.

Mr Neal—Absolutely. We firmly believe that a fund such as this should diversify itself across the globe—

Senator BRANDIS—Sure.

Mr Neal—but we constantly review our asset mix.

Senator BRANDIS—What about debt? Is the break-up between Australia, the United States and other overseas markets roughly the same?

Mr Neal—No, we have both domestic and international debt. I would rather not be drawn on the details of that portfolio because we are in the process of building that portfolio as we speak, and we are obviously acutely aware of our responsibility to make sure we maximise returns. I think if we gave too much away in those areas then we might affect our ability to execute.

Senator BRANDIS—All right, I am not going to press you further. You said that there has been a 2.7 increase in the financial year to the end of April—so, in 10 months. Surely you have charted the movements in the current financial year. Are you able to provide us with that information?

Mr Neal—Not for the fund. I have charts of what indices, and things, have done. Essentially, if you are looking for how the fund tracked over time, it would have hit a low point around the time that equity markets hit a low point, which was in March, when things got pretty gloomy. But the Federal Reserve then organised a rescue for Bear Stearns and since then the chart would have headed upwards.

Senator BRANDIS—What was the aggregate value of all equities in the fund at its highest point in the current financial year?

Mr Costello—If that is important, I think that is something we would need to—

Senator BRANDIS—I must say these are very similar, if not identical, to the questions I asked you in the February estimates.

Senator Sherry—It should be taken on notice. You ask for a high point—do you mean the precise day and time?

Senator BRANDIS—I cannot believe that this data is not core data that you would have at your fingertips—the charting of the aggregate value of the investment of the fund.

Senator Sherry—But you are asking for the peak point.

Senator BRANDIS—Surely you have charted the value of the fund on a daily basis. Surely that is something that you would do as a matter of ordinary practice.

Mr Costello—I think that, if you can be specific in your question, we will provide you with an accurate answer.

Senator BRANDIS—Thank you. I want to know, in the current financial year—in other words, since 1 July 2007—what the value was of the equities component of the fund at its highest value on any particular date within that period.

Senator Sherry—Just to clarify, do you mean until today? You understand that, if they go back and obtain the information, the peak point may be after today by the time they obtain the information and give it to you. I am not trying to be pedantic, but given the markets—

Senator BRANDIS—I understand. You are not being pedantic. I just want to see the chart of the aggregate value since 1 July of the equity portfolio and the debt portfolio so that we can work out movements in the value of the two portfolios across the financial year. Surely that is not hard.

Mr Costello—We will take that question on notice. We have recorded it.

Senator BRANDIS—You are not able to tell me that now? You don't have that? I see a chart sitting right there in front of you, Mr Neal. That is not a chart that tells me that?

Mr Neal—That is how the Australian equity index has tracked. That is in case you want to know when markets were at their peaks and their bottoms.

Senator BRANDIS—Can I say, and I do not want to be too censorious, that these are pretty elementary questions that go to the core business of the Future Fund and, given that they are questions substantially similar to the questions which I and other senators asked you only three months ago, I am a little surprised that you do not have the information to hand.

Senator Sherry—As I recall, I do not think you asked for the day and high point.

Senator BRANDIS—I asked for movements in the value of the portfolio.

Senator Sherry—Yes, you did not ask for the precise day and high point or indeed low point.

Senator BRANDIS—Let us not quibble.

Senator Sherry—It is not a quibble.

Senator BRANDIS—Charting the movement of a portfolio across time is something that is utterly commonplace.

Senator Sherry—I accept that.

Senator BRANDIS—I hope that the next time you come to estimates, later this year, you do have that data to hand, because you should reasonably anticipate questions to substantially the same effect. I asked you as well in February some questions about the decision to take two large positions—I think that is what you said—in American property trusts in about late September or early October 2007. Does the Future Fund still hold still hold those investments?

Mr Neal—We do have one per cent of our fund in global listed property, and a portion of that is in American listed property spread across a large number of trusts in that market, so it is highly diversified. I am just being specific. You said ‘two positions’ but it is actually spread across probably a hundred or so.

Senator BRANDIS—Well, I recall that the evidence was that there were two transactions. Those investments have been held by the fund?

Mr Neal—That is correct.

Senator BRANDIS—Have any additional investments been made by the fund with significant exposure to the American property market since I asked you these question in February?

Mr Neal—No.

Senator BRANDIS—Madam Chair, I was going to go on and ask some questions about the Building Australia Fund. Or at least shortly—I have just thought of something else I should ask. If there are senators who have other questions about the Future Fund then—

CHAIR—Senator Murray has.

Senator BRANDIS—Then perhaps Senator Murray should go now. Before you do, Senator Murray, can I ask in a sense the most obvious question of the lot: what is the total value as of today of the Future Fund, having regard to the value of the debt portfolio, the equity portfolio and the cash holdings?

Mr Costello—The value of the Future Fund is \$52.4 billion.

Senator BRANDIS—\$52.4 billion?

Mr Costello—I should explain, that excludes the Telstra holding.

Senator BRANDIS—And including the Telstra holding?

Mr Costello—Can I return to you on the value of the Telstra holding?

Senator BRANDIS—The value of the fund has dropped substantially, has it not, since we spoke in February?

Mr Costello—No.

Senator BRANDIS—What was the value of the portfolio at its highest since 1 July 2008?

Mr Costello—I think that is the question—

Senator BRANDIS—I was asking about particular elements of the—

Mr Costello—Yes.

Senator BRANDIS—I am sorry—since 1 July 2007. I was asking about the equities and the debt portfolios. But the aggregate value of the fund—what did it get up to this financial year at its highest valuation?

Mr Costello—We would need to apply the same basis to that question. We would need to provide you with an aggregate answer to that question similar to your question about a specific component of it.

Senator BRANDIS—It was more than \$52.4 billion, was it not?

Mr Costello—We would need to check on that and get back to you with our answer.

Senator BRANDIS—Come on, Mr Costello.

Senator Sherry—I am sorry, Senator Brandis. Let us be clear on the question here. Mr Costello indicated earlier—2.7 per cent to the end of April financial year. Where is your start point? Is it the start point at the beginning of the financial year?

Senator BRANDIS—I said 1 July 2007.

Senator Sherry—What was the value then at the beginning of the financial year last year and what is the value today?

Senator BRANDIS—I did not ask that, Senator Sherry, because I know the answer to that. It is in the most recent annual report, you see, on page 21—

Senator Sherry—I think you indicated, and I think it is incorrect, that the fund had gone down in value when in fact it has gone up. It started at \$50.5 billion at the beginning of the financial year.

Mr Costello—That was the value as at 31 January when we were here last.

Senator Sherry—Okay.

Mr Costello—The beginning of the financial year, Senator Brandis has that information in the annual report.

Senator Sherry—The value at start date in January and value today?

Senator BRANDIS—Senator Sherry, it would be more efficient if you let me ask the questions I want to ask. I did not ask you about—

Senator Sherry—I am just trying to clarify the question.

Senator BRANDIS—I am sure if the witness does not understand the question he will ask me to clarify it. I did not ask you about the value on the first day of the financial year because I know what it was. It is in your annual report. Excluding Telstra, it was \$42.58 billion. Including Telstra, it was \$52.32 billion. You have told us now it is \$52.4 billion including Telstra. So, between 1 July 2007 and 28 May 2008, the value of the fund has shrunk in real terms by roughly 2 per cent. What I am interested in knowing is, in nominal terms, what was the highest value that the portfolio reached on any day between 1 July 2007 and 28 May 2008?

Mr Costello—I understood that we have agreed to take that question on notice.

Senator BRANDIS—But surely you can tell me? This is what you do. You must know what the best day for the fund was, on what day its value was the greatest? Or even if you cannot tell me the day, I am less concerned about establishing the date than in establishing a value.

Senator Sherry—The witness has agreed to take on notice the high point, the date and the value. He has agreed to take that on notice. You can rephrase the question any number of ways, but he has agreed to take it on notice. But did I hear you say that the fund had shrunk in value?

Senator BRANDIS—The real value, having regard to inflation, yes.

Senator Sherry—How did you calculate that?

Senator BRANDIS—By comparing the value as reported in the annual report on 1 July 2007 with the answer I just received a few questions ago.

Senator Sherry—What is that?

Senator BRANDIS—It was \$52.32 billion on 30 June 2007 and \$52.4 billion today.

Senator Sherry—Perhaps Mr Costello can confirm what the real value is—if it has increased or not.

Senator BRANDIS—Given that we know that inflation is running at more than three per cent and the value in nominal terms is not changed—

Senator Sherry—But with the value of inflation over that period, Mr Costello might have the real value figure—if it is real.

Senator BRANDIS—Perhaps we should let Mr Costello answer the questions.

Mr Costello—I think the confusion arises by the fact that you are looking at a figure which does include the Telstra allocation, and we are talking about a figure that does not. So, the value of the portfolio ex-Telstra—and I am relying on a figure you just gave me, which was \$42.58 billion at the end of the financial year.

Senator BRANDIS—What is the value, ex-Telstra, now?

Mr Costello—It is \$52.4 billion.

Senator BRANDIS—You said ‘including Telstra’?

Mr Costello—No.

Senator BRANDIS—So that is ex-Telstra, \$52.4 billion?

Mr Costello—Yes. And when we were here in January and you were talking to us, that same portfolio was \$50.5 billion.

Senator BRANDIS—Alright, \$50.5 billion. Taking the values—including Telstra and excluding Telstra—what was the highest value of the fund in the current financial year? Do not worry about the date—that is of secondary concern to me; I just want to know how it has waxed and waned. Can you tell me—approximately—what was the highest value of the fund? On the day on which it was most valuable?

Mr Costello—No.

Senator BRANDIS—No!

Dr Neal—It is just not a number that we track.

Senator BRANDIS—You just don't know?

Senator Sherry—They have agreed to take it on notice, and you keep rephrasing the question. But they have agreed to take it on notice. They have given you the value, including Telstra, ex-Telstra, last year, January and as of today. They have agreed to take it on notice.

Senator BRANDIS—No—let me ask the questions, would you?

Senator Sherry—I am giving you the answer. They have agreed to take it on notice.

Senator BRANDIS—Stop trying to be the chairman of the meeting too. If the witnesses do not understand the question, I am sure they will say so.

Senator Sherry—The questions are answered through me. They have indicated that the question of highest value and date—you now do not want date?

Senator BRANDIS—I did not say I did not want date but I am less concerned about date.

Senator Sherry—It is a secondary issue.

Senator BRANDIS—It is a secondary issue, that is right.

Senator Sherry—They have agreed to take it on notice. You have asked the same question now four or five times, and they have agreed to take it on notice.

Senator BRANDIS—I am entitled to press a little bit.

Senator Sherry—You are, and we are now at four or five times, and it has been agreed it will be taken on notice.

Senator BRANDIS—I am about to go on and ask a different question.

Senator Sherry—Good.

Senator BRANDIS—Given that you have told us you cannot tell us the precise value at the high point, surely you must have an idea, surely you can tell us approximately what the value was at the high point—to within the closest billion?

Mr Costello—I will repeat my answer: we would prefer to give you accurate information and we will do that speedily.

Senator BRANDIS—Mr Costello, nobody is questioning your bona fides here. I am sure not only would you prefer to give me accurate information; I have absolute confidence you will give me accurate information when you provide the answer in writing. But for the purpose of this evening's proceedings, given that you evidently do not have this information at your fingertips, I will be satisfied with an approximation. Now, to the nearest billion, what was the high point?

Mr Costello—I am unable to give you that information.

Senator BRANDIS—You don't know?

Senator Sherry—He has agreed to take it on notice.

Senator BRANDIS—No, he has agreed to take on notice the question: what was the value at the high point? I am now asking a different question: what is the approximate value?

Senator Sherry—It is the same question in another form.

Senator BRANDIS—No, it is not.

Senator Sherry—It is the same question in another form. The peak value—approximate, accurate to the nearest million dollars—has been taken on notice.

Senator BRANDIS—I am prepared to swallow the answer that, down to the last dollar, you are not in a position to tell me. But I just refuse to accept that you could not tell me approximately what the high point was, since it is your job to manage this fund and this is the nation's wealth. That is extraordinary, Mr Costello. Do your best, to the nearest billion.

Mr Costello—Senator, I can only repeat the question. I do not think it is helpful to guess this sort of information.

Senator BRANDIS—Let me be the judge of that, please, because I know the information that is of interest to me. Nobody has suggested that my questions are not relevant to these estimates. Nobody has suggested any obscurity in the question, so let me be the judge of what is helpful to me, please.

Senator Sherry—And I will determine—

CHAIR—Minister, I just remind you that the witness has answered that he will take it on notice.

Senator BRANDIS—Mr Costello, was the value of the fund, at the high point, greater than \$52.4 billion?

Mr Costello—I think that would be a fair observation, given that we have seen equity markets over the last week decline close to a per cent.

Senator BRANDIS—So the answer to that question is yes?

Mr Costello—Yes.

Senator BRANDIS—What I would like you to do when you provide the answer on notice, is to provide me with a chart which tracks the value of the fund on a daily close basis. In a globally traded fund, do you speak of a daily close basis? I suppose you must.

Mr Costello—Yes.

Senator BRANDIS—By reference to which time zone?

Mr Costello—We have a number of conventions there, but we basically take the close of trade on the relevant day, accepting that that happens overnight.

Senator BRANDIS—In the eastern seaboard of Australia?

Mr Costello—Yes, although markets around the world are ending their day overnight.

Senator BRANDIS—That is my point. I just wondered. I would like a chart by reference to value at close of trade on each day since 1 July 2007. Since you will be taking this on notice, can I trouble you to provide charts both for the aggregate value of the fund and the values of the equity and debt portfolios, allowing for the fact that those portfolios have grown

with acquisitions during the course of that period. That was all I wanted to ask about the Future Fund.

Senator MURRAY—Mr Costello—through you, Minister—14 days ago, on 12 May 2008, the secretary sent through some questions on my behalf so that you would be pre-prepared, because sometimes questions are asked and you are not pre-prepared. I will read them through onto the record and you can respond as you see fit. The first set was as follows: ‘Senator Murray asks that you outline your policy—failing a formal policy, your views—with respect to margin lending, short selling of various types, and stock lending for profit taking and for voting.’ I would be happy if, in answering, you had a document you could table and I could go away and read that. If not, please give me your views.

Mr Costello—We have responded to those questions and forwarded them—indirectly, I understand—to you. I understand that the answers are in the process by which they leave our office and arrive at yours. I do not think I am—

Senator MURRAY—This went from the secretary of the committee, as is required, via the finance department. I have a copy of the email. At 10.24 am it went to two email addresses in the finance department. So that is what happened.

Mr Costello—No, there is no uncertainty about that. My point is that we have responded to those questions. Obviously, you do not have a copy of those responses.

Senator Sherry—We are just checking. If Mr Costello had sent them back, they would have gone to the Minister’s office before coming to you. I will check.

Senator MURRAY—That process happened—because that happens to questions on notice. However, my purpose was to pre-inform you so that you would be able to provide those answers here. You and I do not need anyone between us; he is right there to guide it.

CHAIR—I suggest that you withdraw the two personal email addresses that you just read out.

Senator MURRAY—Yes, by all means.

CHAIR—I ask that they be withdrawn by Hansard.

Senator MURRAY—My apologies. I did not think about it. Please convey my apologies to the officers concerned. Can you give me an answer as to whether you do have a specific policy in those areas?

Mr Costello—Sure. The first question you asked us concerned our view or policy with respect to margin lending. Our response to you notes that the Future Fund is prohibited from any form of borrowing; therefore, margin lending would be an illegal activity for the Future Fund. We therefore do not have a policy, apart from a general one of complying with the legislation.

Senator MURRAY—So really your policy is not to engage in it.

Mr Costello—Yes.

Senator MURRAY—What about short selling?

Mr Costello—The legislation is silent on short selling. Short selling is a strategy used by many equity managers as a way of deriving value. We presently do not have any mandates with any investment manager that would permit short selling. So, currently, short selling is not an activity undertaken by the future fund.

Senator MURRAY—But you do not rule it out?

Mr Costello—We do not rule it out, neither do we have a policy on it. It is simply something that we do not presently permit any manager to engage in.

Senator MURRAY—That is very helpful. Stock lending you will notice I put into two classes: what I call profit taking, and using stock lending for the purpose of voting.

Mr Costello—The legislation does specifically permit the board of guardians to engage in securities lending. You would appreciate that securities lending is a practice used by many institutional investors, both here and around the world. The Future Fund does not engage presently in securities lending. We have decided to wait until the current reviews of market activity with respect to securities lending are finalised. That will enable us to form a policy, being fully aware of the government's and the regulator's views on this issue. So presently, to be absolutely clear, the Future Fund does not lend any securities in its portfolio.

Senator MURRAY—Just recap for me. Did you say that you are able to lend shares but you do not do it?

Mr Costello—That is correct.

Senator MURRAY—If you envisaged lending shares, do you think that, without the permission of the ultimate beneficial owners of the shares, you enter risky territory ethically? The question is: who are the beneficial owners of your shares? In my view, indirectly it is the superannuation beneficiaries, but there are other elements of your fund that do not have those sorts of beneficiaries. How do you get over that particular aspect?

Mr Costello—The legislation is quite clear that the beneficial owner of the assets of the Future Fund is the Commonwealth of Australia. So we manage on behalf of the Commonwealth as opposed to a superannuation fund, which manages on behalf of a number of investors.

Senator MURRAY—Would you seek the approval of the Commonwealth if you were to start engaging in lending shares?

Mr Costello—As I said before, this is an issue that we have decided to set aside until the regulatory environment is settled. It would not be appropriate for me to comment on behalf of the board, which ultimately is mandated by the government to manage the Future Fund, on what its policy or processes would be.

Senator MURRAY—I wonder whether, through the committee, I could ask you to convey my view to the board that this is a matter they should form a view on—whether they should be able to take a decision on their own account for lending shares or refer a policy to the Commonwealth or not. If it is not settled, I think it needs to be settled. In my view, the decision should not rest with the management; it has to be a board policy or a board policy confirmed by what I would describe as the beneficial owners. I think the Commonwealth is a perfectly adequate body. Are you happy to convey that view?

Mr Costello—I certainly confirm your point that this is a decision for the board, which does have responsibility for the management of the portfolio.

Senator MURRAY—No, I am making a different point to you.

Mr Costello—I appreciate that. You have asked us to convey the view to the board that you believe the Commonwealth of Australia should—

Senator MURRAY—I think they need to come to a view because it has become much more alive and complex and, frankly, people like me and probably people like you see it differently now than we did six months ago.

Mr Costello—I will certainly convey that. We do accept that we need to come to a view. We have made a deliberate decision to wait until current discussions have progressed further as that would help us in the formation of that view.

Senator MURRAY—My next question, as you know, concerned the issue of lending shares for voting purposes. In my view, when you do that, you give away rights. The question is: if those rights are held on behalf of somebody else, should you at least have their permission that you can do that? I do not mean with respect to each transaction, because that is unworkable, but as a general policy. Is there any view held by the Future Fund with respect to lending shares for voting purposes?

Mr Costello—The Future Fund recognises the value of the voting rights attached to shares and it understands that, if shares are lent, those voting rights transfer to the party to whom they have been lent. When we determine our policy on securities lending generally, it will be done with a high degree of awareness about how this would interact with our view on the value of voting rights.

Senator MURRAY—Again, I would suggest that this is a matter on which the board needs to take a view, more than what has been conveyed before. When Mr Murray appeared before the committee—in early 2007, was it?

Senator Sherry—It was this time last year I think.

Senator MURRAY—It was approximately, then. My impression of his evidence was that really, with respect to voting, he envisaged being relatively passive as an investor. In other words, he would not be an active participant in materially affecting the market from a voting perspective. That view might have changed, of course, and I do not want to pin him with a policy he might not subscribe to any further. But occasions might arise where, if shares are lent and the borrower votes contrary to the fund's interests, or what you perceive to be your view or your interest, that would be a problem. I just think you have to decide on this issue of whether you will allow shares to be voted for lending purposes and in what circumstances. I would ask you again to convey that to the board as a legitimate concern which they should resolve. Are you happy to do that?

Mr Costello—I will do that.

Senator MURRAY—Thank you.

Senator WATSON—Can I just get a clarification? Does the Future Fund actually lend scrip?

Mr Costello—No.

Senator WATSON—You don't?

Senator MURRAY—They covered it earlier. They are not prohibited from it, but they do not at present. That is the substance of your answer, isn't it?

Mr Costello—Yes.

Senator WATSON—Thank you.

Senator MURRAY—These are not questions that are in here; so far I have kept reasonably faithfully to what is in here. Does the fund participate in the key industry bodies or associations representing your industry?

Mr Costello—Yes, to a limited extent, of course. We do not see ourselves as part of the superannuation industry. We do not have the administration of members' accounts that superannuation funds do and we do not have many of the other challenges, such as insuring members' lives and communicating the fund's offer to potential investors. So we do not have a great deal in common with superannuation funds in that respect. With respect to broader investment issues, we do share many issues in common, including issues relating to custody and other areas. So I think the answer to that question is: yes, to a limited extent.

Senator MURRAY—You may or may not find yourselves, as an institution, in an awkward situation, but there is a great deal of debate going on in the industry as a whole over issues of margin lending, short selling, securities, stock lending for profit taking and voting. As I have read the financial press and understood the feedback that I have got from market players, there are divergent views, including, of course, on the future of the ASX's regulatory role, which we will not go into here. Plainly, you are now a very significant player in our domestic market and, I suppose, a reasonable player internationally, although you have to get into the trillions to be meaningful there. So your views matter. Have you developed a mechanism for the expression and exploration of your views so that you are able to influence the most practical and ethical outcomes from your perspective?

Mr Costello—I would describe our position currently as an informal network where we participate in some of these informal discussions. We are very conscious, of course, that it would be inappropriate to represent a position on the Future Fund before the board of the Future Fund has had an opportunity to confirm its position. Its present policy is that it does not participate in securities lending. So we think it would be inappropriate to make any public statement about what the Future Fund's view on these issues is until that position is finalised. Therefore, presently we participate in a very informal way in some of the discussion, exactly as you point out, that is going on about this issue so as to become better informed about the different views and, in particular, to keep close to the views coming from government and regulators on the issue.

Senator MURRAY—Perhaps it is an unfair observation from me, but if I were government I would feel rather glad to have an insider in the market who I could go and ask directly how it is going and what is happening. Without you having to react to that, have you been asked to give a submission to Treasury with respect to their exploration of these issues?

As I understand, they have been consulting with the market with a view to advising the minister on these issues.

Mr Costello—We have not been asked for a submission on this issue.

Senator Sherry—This is more an issue for markets and/or ASIC. There are a number of issues under examination and we have discussed them—as well as research houses and rating agencies, but that has not been raised.

Senator MURRAY—I have been pleased to see how active you are, Minister.

Senator Sherry—There is plenty going on. I will double-check, but I think people have been asked for their views without individual letters being sent to organisations seeking their views. If the Future Fund, or anyone else, wants to proffer a view about the current examination of issues—the ASX, ASIC and Treasury have some issues under examination—then they are welcome to.

Senator MURRAY—I understand that, Minister. One of the virtues of Australia is that people do have the ability to interact with our governments—it is terrific. However, my question goes to a more informed and structured interaction. I think it is very useful for Treasury in their inquiries concerning these areas to be talking to you.

Senator Sherry—I will double-check to see whether Treasury in this case would be markets group—ASIC will have to speak for themselves and of course the ASX—and whether in fact they have had any discussions. If Mr Costello is not aware of any, my assumption would be there have not been discussions between Treasury and the Future Fund.

Senator MURRAY—Returning to my theme of your interaction with those who help affect industry policy in the broad, which are eventually adopted as regulatory guidelines perhaps by ASX and perhaps by ASIC, the fact is that some of the market practices have had the effect of forcing down the value of specific stocks, which is not good for you if you were invested in them. It is in your interests, isn't it, to engage on those issues. I want to be sure that you are engaging on those issues with the industry abroad.

Mr Costello—I probably need to repeat the answer I gave. That is happening in a very informal and tentative way at this stage. We are clearly, like you, observing both recent events and discussion around those and we would be very pleased to contribute our thoughts on the broad issue of these and other things relevant to us and to policy makers, if they would find that helpful.

Senator MURRAY—One of the difficulties the fund faces is the perception of its position. I am summarising a discourse we have had in this committee with Mr Murray and yourself last year: it does not want to be seen in any way as a market activist on behalf of the Commonwealth. You want that arm's length independent approach—I understand, accept and support that. It might have the effect of making you too passive. My question to the minister is: do you think it would be appropriate for the government to consider perhaps giving a letter of comfort towards finding some way to make sure that the fund feels free to act as freely as it might? I sense there is passivity about them, which I understand. Its motive might be because of its ownership.

Senator Sherry—Subject to discussions with the finance minister, who is responsible for the Future Fund. Mr Costello is mindful of the board of guardians and the sensitivity around being seen to promote a debate, hence the discreet debate discussion with other individuals. There is absolutely no shortage of individuals or organisations expressing views on all of the current market activities both to Treasury—I am sure that is the case to ASIC, to myself and to the Treasurer. Subject to the Finance Minister and before the various issues under examination are concluded that fall within my remit, Treasury's remit and markets group, I do not see any particular difficulty with them discussing the issues with Mr Costello and/or members of the board or other staff for that matter. All views are welcome.

Senator MURRAY—I will leave it there. I am sure you understand what I have been driving at. In any case, the formal answers to those questions are now coming through the process, aren't they?

Senator Sherry—Yes.

Senator WATSON—I refer to the Washington based Peterson Institute for International Economics. They did a survey and found that Australia's Future Fund was one of the world's least transparent and falls well below global best practice when they looked at major sovereign wealth funds. Would you like to comment and provide us with some reassurance?

Mr Costello—Yes. We obviously—

Senator Sherry—I am sure Mr Costello will, but frankly I am not sure how many other Future Fund type entities are subject to this sort of scrutiny—that is, estimates in parliament.

Senator WATSON—It is a sovereign wealth fund—

Senator Sherry—I read that critique, I must say, with some surprise.

Senator WATSON—So did I. That is why I am asking the question. And I am sure we will get a reassurance.

Senator Sherry—And Mr Costello will. But I have to say from a government point of view, given this estimates process and how incredibly rigorous that is, I would rate it as a parliamentary scrutiny rigour that would rank amongst the best in the world. Mr Costello can deal with the other issues.

Mr Costello—Thank you. We—

Senator WATSON—They are talking about transparency.

Mr Costello—As you can imagine, after that report came out—and some of the headlines that were attached to it were rather strong in their wording—we spent a great deal of time going through that report and in fact spoke to the Peterson institute about some of the conclusions they drew. It is fair to say that where the Future Fund scored relatively lowly—the only section where it scored relatively lowly—was in the section which was entitled 'transparency and accountability'. We formed the view that that was fundamentally a reflection of two things: the youth of the fund, in that the annual report did not provide some of the detail that the Peterson institute regarded as important—for example, a breakdown by currency of all of the currencies in the portfolio. There were a range of other policies or issues

which they looked for in the fund documentation. That has provided a useful guide to us about some of the additional information we would include in a future year's annual report.

The other area that they specifically commented on and attached weighting to was the extent to which funds provided quarterly public updates on the performance of the fund. Our position has always been there that that is something that the Future Fund will do. It was always that during this first transitional year—which is about one month away from ending—we would operate without doing that. We felt that that was important to be able to get our program established. But we recommit—and I think future reviews from the Peterson institute will reflect this—to providing a short portfolio update at the end of each quarter going forward in the 2008-09 financial year and beyond. I think that any future review conducted by the Peterson institute will score the Future Fund rather more highly in that way. It was really just those couple of areas that led to them making their observations.

Senator WATSON—I am pleased you have done that, given the size of the fund and the international reputation of these people who did the assessment. I am pleased that you have responded positively and you can see something that you are going to build on for the future. In terms of investment performance, last time I think there was some criticism about the timing of some of those investments.

Mr Costello—There was.

Senator WATSON—Are you taking advantage of the lower stock values to buy into some stocks that have value?

Mr Costello—With Senator Brandis, who was asking similar questions just recently, we confirmed that we have bought a little over \$2 billion worth of equities around the world since our last meeting. I think to the extent that markets have remained flat for some of that period and gently recovered, that would be a fair observation, that we have bought—

Senator WATSON—So it has been a good opportunity while value stocks are somewhat—

Mr Costello—It has. And not just in this area, but we are—

Senator WATSON—Pardon?

Mr Costello—Not just in equity markets but in a broader range of markets we have been building out our program.

Senator WATSON—Essentially, where has that been approximately in terms of domestic equity and fixed interest? Just give us a rough breakdown.

Mr Costello—On a number of occasions recently we have said that about a third of our equity program will be local, and two thirds international. The update we gave before, which is now in *Hansard*, shows that presently around 10 per cent of the fund is in Australian equities and 20 per cent in international equities, making approximately 30 per cent in equities. I am not sure if we should go through the information we provided previously, or—

Senator Sherry—Senator Brandis asked about this, and quite a lot of detailed information was given at the beginning.

Senator WATSON—I see. I thought he was yet to come in—sorry.

CHAIR—Yes, he has already. So if you are happy to refer back to *Hansard* that would be helpful.

Senator WATSON—I will refer back to *Hansard*.

Senator BRANDIS—I already asked.

CHAIR—You did—in great detail.

Senator FIFIELD—I would like to focus on the Building Australia Fund, which I think is to be established on 1 January 2009.

Dr Watt—I think that you might have to focus on us, Senator.

Senator FIFIELD—Mr Costello's thoughts might be interesting as well. Dr Watt or Mr Costello: what are the key differences between the Building Australia Fund, the higher education fund, the Health and Hospitals Fund and the rest of the Future Fund, or the fund that currently exists?

Dr Watt—There are a couple of differences. One is that the proceeds of the Future Fund are not to be drawn down until a certain target level is reached, and then they are to be drawn down against emerging pension liabilities, to cover those emerging liabilities—if I have got that a bit oversimplified, please forgive me. On the other hand, the Building Australia Fund, the Higher Education Endowment Fund and the Health and Hospitals Fund are funds which will be accessed from the financial year 2009-10. So, disbursements will be made out of the funds.

Secondly, in the case of the three new funds, the disbursements will go for specific purposes quite different from the purposes of the Future Fund—it goes without saying. Thirdly, disbursements of the Future Fund will be set according to payments of pension liability. Disbursements of the other funds will be determined according to fiscal circumstances because they will be disbursed through the budget process.

Fourthly, whereas the Future Fund is directed at one purpose, resources drawn from the other three funds will be subject to advisory processes about how they should be spent, and subject to overall consideration of the reasonableness of the level of expenditure in any given year.

Senator FIFIELD—So the Future Fund, as it was originally envisaged, and the higher education fund—they are locked boxes, which would never be fully depleted?

Dr Watt—No, that is not true.

Senator FIFIELD—No?

Dr Watt—The Future Fund will be drawn down one day, or largely drawn down—

Senator FIFIELD—Unless it is topped up.

Dr Watt—Unless it is topped up. The Future Fund is for a defined purpose—that is, to meet superannuation liabilities. As those liabilities are funded out—eventually the curve goes up like that and comes down—then the fund will be drawn down.

Senator FIFIELD—Whereas the higher education fund would be envisaged to be ongoing—it would never be fully drawn down?

Dr Watt—This is the former government's Higher Education Endowment Fund or the current one?

Senator FIFIELD—Perhaps you could explain the difference between the former scheme and how the new one will operate?

Ms Campbell—The Higher Education Endowment Fund is being closed and subsumed by the Education Investment Fund. The Education Investment Fund will be used to fund priorities including:

... capital expenditure and renewal and refurbishment in universities and vocational institutions as well as in research facilities and major research institutions.

Its purposes are somewhat broader than the Higher Education Endowment Fund, because it was primarily focused on universities.

Dr Watt—Yes. I should correct my previous evidence. I called it the education endowment fund; it is the Education Investment Fund. I apologise.

Senator FIFIELD—The previous education fund was one which was envisaged never to be fully drawn down.

Ms Campbell—It was envisaged that the Higher Education Endowment Fund earnings would be used to fund investments.

Senator FIFIELD—The earnings would be used, but the corpus would always be there.

Ms Campbell—That was the intent.

Senator FIFIELD—That was the intent, and that is not the case with the Education Investment Fund?

Ms Campbell—The government has indicated that both the capital and earnings will be available for projects, subject to the conditions that Dr Watt mentioned earlier.

Senator FIFIELD—So the basis for the fund is quite different?

Ms Campbell—It is.

Senator FIFIELD—How will the government inform the guardians of the Future Fund board of the schedule and the profile of the draw-down of funds?

Ms Campbell—We are commencing discussions with the Future Fund management agency and the Future Fund board of guardians about an investment mandate which will govern how these activities occur. This is a quite recent announcement, and those discussions have only just commenced. We are not in a position yet to finalise those details.

Senator FIFIELD—Because the duration of the investments on the part of the fund will be determined by the nature of the projects, when they are going to start, when they are going to come online and when they are going to finish. It will be a fairly complex and challenging task, I imagine, for the fund managers, or are they are used to this sort of stuff in such a complex—

Dr Watt—The government is sure that the Future Fund—or the guardians—is up to the task. There is no doubt about that.

Senator Sherry—Senator Fifield, I asked almost exactly the same questions this time last year when you had announced—or the previous government had announced—the Higher Education Fund, and I have to say the answers tonight are remarkably on track.

Senator FIFIELD—It is good the department and the fund are very consistent.

Senator Sherry—And it is good that senators both have the same thoughts in similar circumstances

Senator FIFIELD—Yes, indeed.

Senator MURRAY—That is always good.

Senator FIFIELD—That is right. Dr Watt or Senator Sherry, I am just wondering if the draw-down on the capital of the Building Australia Fund is consistent with some comments from before the election from Mr Bowen, on 11 October 2006, which I will just read out:

... Labor's Building Australia Fund policy does not involve raiding anything. The government's assets would be maintained, and only its income stream, only the return on investments, would be made available for investment in productive infrastructure. The Treasurer knows this and he chooses to ignore it for its own political purposes.

That would seem to be at odds with—

Senator Sherry—I do not think so.

Senator FIFIELD—Could you explain?

Senator Sherry—As I recall the context of the comments and the debate was the previous Treasurer's allegations that we were going to raid and loot, almost spreading the money like confetti. That was the sort of allegation that the former Treasurer was making about the existing Future Fund, which was just not correct.

Dr Watt—I do not think I can comment on Mr Bowen's comments, because I am not aware of them, but it is always difficult to predict the future. I acknowledge that. But the government has allowed the possibility of drawing the capital; it has not actually done it yet.

Senator FIFIELD—So it is a theoretical possibility, not something that the government will necessarily do.

Dr Watt—It is a possibility; that is correct.

Senator FIFIELD—Okay. A possibility is still very different from the possibility itself being ruled out.

Dr Watt—I acknowledge that.

Senator FIFIELD—So it is different.

Senator Sherry—Mr Bowen's comments then referred to the existing Future Fund as at the date of his comments. There have been three additions to the Future Fund announced in this budget.

Senator FIFIELD—True, indeed. I also refer to the minister's budget speech regarding the Building Australia Fund. In that speech he said:

So that investment can begin immediately, tonight I announce that the Government will allocate \$75 million in 2007-08 for immediate feasibility studies on high-priority transport projects right across

Australia. This will begin the necessary planning work for key projects in advance of further deliberations by Infrastructure Australia.

Who will undertake that study? Will it be the department?

Dr Watt—I do not know, Senator. Infrastructure Australia is in the Infrastructure—whatever it is called.

Ms Campbell—Infrastructure, Transport and Regional Development, Local Government.

Dr Watt—You would have to take that up with him. They will be the ones who will be managing the studies exercise, I believe.

Senator FIFIELD—So Finance will have no input into that study?

Dr Watt—No direct input, Senator.

Senator FIFIELD—The results will be presented and the fund will act accordingly.

Dr Watt—I think the answer is this: scoping studies—the results will come back presumably with other information and be considered for possible disbursement against the fund assets and earnings.

Senator FIFIELD—So the fund is just the pot of money to be tapped into.

Dr Watt—No, it is nothing that is quite that simple. Firstly, the government said there would be rigorous evaluation criteria against all projects under the three funds. Secondly, the government said the disbursements, because they are through the budget, will be in the light of fiscal circumstances.

Senator FIFIELD—Again, you probably will refer me to the other department. You do not know when that other project will be completed?

Dr Watt—No, Senator, I do not.

Senator FIFIELD—Senator Sherry might be able to assist, but will that study take into account Labour's pre-election commitments for the next year?

Dr Watt—I cannot assist you in respect to that fund. I do not have the responsibility or representational responsibilities; it will have to go to the appropriate estimates.

Senator FIFIELD—Fair enough. In terms of the Building Australia Fund, what other countries have a sovereign wealth fund, future fund, type of arrangement? I should know this.

Dr Watt—A number of countries have sovereign wealth funds. Each of them has different characteristics. I do not pretend to be able to enumerate to you—

Senator FIFIELD—One that focuses on infrastructure?

Dr Watt—I am unable to answer the question.

Senator FIFIELD—Mr Costello?

Mr Costello—I would concur with that: I am unable to tell you.

Senator Sherry—I can help. You look at the Singapore provident fund; it is not just a retirement income fund. I understand the Singapore provident fund carries out investments in respect to housing and their public transport system and, indirectly through the investment

entity, has a direct shareholding in a whole range of public infrastructure assets—for example, I think, the ports corporation. So Singapore is one model I can think of—there may be others.

Dr Watt—We would be happy to take the question on notice and get you an answer.

Senator FIFIELD—Thank you. I would appreciate that. I thought Mr Costello, in reviewing the world's sovereign wealth funds before the establishment of the Future Fund management authority may have had a handle on some of those but, Dr Watt, I would be happy for you to take it on notice.

Dr Watt—I can come back to that. When we were reviewing things about the future of the establishment—the Future Fund—we had a particular issue in mind. We had the New Zealand model, which was the closest to where Australia was going, and that is the one we spent most of the time focusing on I think from memory. We did not look that much more broadly.

Senator FIFIELD—Will the government consider the rate of return on capital when making decisions as to how and where the capital is to be expended?

Dr Watt—The disbursements from the fund are to have regard to rigorous criteria—assessments—so, yes, I would think they would. They would be subject to normal cost-benefit analysis work. That is not the only thing you look at in these matters but it is one indicator.

Senator FIFIELD—We will not really know that for certain for a little while, will we?

Dr Watt—The government is still considering exactly how the disbursement processes will be worked through for all funds—Infrastructure Australia is further ahead of the other two funds—and that will be subject to further cabinet consideration over the next six to 12 months. Of course, that should be in sufficient time for first disbursements, which will not be made before 1 July 2009.

Senator FIFIELD—And the government will consider the risk profile the capital will be subjected to?

Dr Watt—I would assume so, Senator.

Senator FIFIELD—One would hope so, but again that is not something we know for certainty as yet. We have to wait and see if that will be—

Dr Watt—Not until the government articulates its criteria.

Senator Sherry—It is very early in the process yet.

Senator FIFIELD—I appreciate that, but I am just trying to get a handle on what the factors will be which are considered when determining how and where the capital is to be expended, which you would expect to be a point of interest and concern. Again, you may refer me elsewhere, Dr Watt, but will this fund be involved in any way in the national broadband network? Will that be considered as an infrastructure project to which funds could be considered being put?

Dr Watt—Ms Campbell has got an answer for you.

Ms Campbell—The budget documents did indicate that the national broadband network would be funded from the funds in the Building Australia Fund and that money from the

Communications Fund would be transferred into the Building Australia Fund, as would some of the proceeds of the final instalment of Telstra.

Senator FIFIELD—So that investment in the national broadband network, given that that decision has been taken, is going to happen regardless of the rate of return on capital or the risk profile involved—I guess because it is already a decision that has been taken before those criteria have been determined.

Dr Watt—I think it has also been made clear that the broadband component is seen as separate—not separate in an independent fund, but it is a distinct tranche of the fund.

Senator FIFIELD—Which brings me back to my earlier question about whether pre-election commitments would be funded through this mechanism. We have got one example where that is the case, and I guess there could be other examples. Your previous answers about considering the rate of return and the risk profile of capital expended need to be qualified to the extent that there are some pre-existing programs which the government will commit this money to regardless of—

Dr Watt—I am not aware that the government has said it will commit it to any other pre-existing program.

Senator FIFIELD—We have got one so far—

Dr Watt—We have got one.

Senator Sherry—There was a very specific election commitment.

Dr Watt—It was also indicated that would be specifically carved out and handled differently from the rest of the Building Australia Fund. I am not aware the government said anything about any other component.

Senator FIFIELD—Is it possible to take on notice just to double-check that there are no other ones that some of us may have missed?

Dr Watt—We can take the question on notice, yes. I am happy to do that.

Senator FIFIELD—Thank you very much. How will the Building Australia Fund report on the activities and the investments of the fund? Will it be through the budget? Will there be particular special reports which will be issued? What will be the various mechanisms?

Ms Campbell—The Building Australia Fund will be recorded in the financial statements of the Department of Finance and Deregulation but will be funds under management by the Future Fund management agency, very similar to how the higher education endowment funds are currently reported.

Senator FIFIELD—Thank you.

Dr Watt—Disbursements from the fund will be shown as part of the normal budget program accounting.

Senator FIFIELD—Okay, thank you for that. Will the Building Australia Fund be used to buy Australian government bonds issued by the Australian Office of Financial Management?

Ms Campbell—Senator Fifield, the investment mandate is not yet final. Only preliminary discussions have been held on that.

Senator FIFIELD—So maybe, maybe not—we will have to wait for the investment mandate.

Ms Campbell—There are preliminary discussions only at this stage.

Senator FIFIELD—What is the time frame again for the investment mandate being determined?

Ms Campbell—The funds are to be established by 1 January 2009.

Senator FIFIELD—So at some point before then?

Ms Campbell—We are working very—

Senator FIFIELD—You cannot hazard a guess as to how far before then?

Ms Campbell—We would expect the mandate to be determined before the funds were put in place.

Senator FIFIELD—Until the study that has been commissioned reports, I guess no-one can give me a handle on the variety or range of infrastructure that the Building Australia Fund will potentially fund? Is there any infrastructure that you will rule out? I am just seeing whether we can narrow the range and scope of this.

Dr Watt—The government did announce some broad categories.

Ms Campbell—They were in transport and communications, such as road, rail and port facilities to ease urban congestion and enable growth in trade and broadband.

Senator FIFIELD—That is fairly broad. That could pretty much be anything. Again, you will no doubt say that this is yet to be determined, but would the fund invest in a minimum sized infrastructure project?

Dr Watt—It is not an issue that has yet been investigated. It is really a question for Infrastructure Australia rather than for us.

Senator FIFIELD—There would not be a maximum sized project either?

Dr Watt—It has not been determined.

Senator FIFIELD—Will the Building Australia Fund fund projects which are state responsibilities and which would have been seen as state responsibilities? For instance, a brand new railway line in a state rail system would not be excluded by the broad categories?

Dr Watt—It certainly would not be excluded, but the answer is to be determined.

Senator FIFIELD—Senator Sherry, you would expect me to ask this question I am sure: is the Building Australia Fund an acknowledgment by the government that the state Labor governments have woefully failed to invest in their infrastructure responsibilities?

Senator Sherry—I think rather it is an acknowledgment that the former federal government woefully failed to live up to its responsibilities. That is what I think it is an acknowledgment of.

Senator FIFIELD—Do you think the state Labor governments get a big tick for their responsibility for infrastructure investments?

Senator Sherry—I think the state Labor governments, from a general observation, have been very competent in handling their responsibilities; but, beyond that, I am certainly not an expert on infrastructure.

Senator FIFIELD—I suggest that you do not go to Sydney any time soon or, if you do, that you keep those views to yourself or you might be met with much laughter and mirth.

Senator Sherry—I go to Sydney too often, I have to say, particularly recently because of my portfolio responsibilities.

Senator MURRAY—I suggest you visit Karratha.

Senator FIFIELD—I am sure that there will be no particular targeting of marginal Labor seats.

Senator Sherry—The access parameters that have been established are a matter for another estimates and Infrastructure Australia. I would be very confident of everything that I have seen to date that has been announced in terms of the process; it is very robust and sound.

Senator FIFIELD—I guess we cannot rule out a disproportionate number of investments being made in ALP seats or marginal ALP seats, given the possibility that pre-election commitments will be funded by the Building Australia Fund.

Senator Sherry—You are spinning your question round the other way. As I have said, from everything I have seen, it will be a very robust governance analysis process, but Infrastructure Australia is an issue for another estimates committee.

Senator FIFIELD—Again, how the infrastructure priority list is developed and how that is balanced between states and between city and country are also for another estimates committee.

Senator Sherry—It is. But, obviously as a Tasmanian senator, I will be keeping an eye on what happens for Tasmania. I do put on that hat with an eye to what happens in my home state.

CHAIR—Minister, you do share with the chair.

Senator MURRAY—Broadband will stop at the end of the ALP boundary and then restart at the next ALP constituency. The railway line will have big gaps between it.

Senator Sherry—On everything I have seen to date I am confident the evaluation process will be robust.

Senator FIFIELD—Senator Sherry, as a Tasmanian senator you would probably be a bit concerned about the possible bias in funding as a result of only three states being represented on the Infrastructure Australia board.

Senator Sherry—I am confident it is a robust process. But I do not have direct responsibility and I do not have representational responsibility, so that will have to go to the appropriate minister who, I think, is Senator Carr, or Senator Conroy.

Senator FIFIELD—That is terrifying, Senator Sherry. I would have preferred if you had not told me. Ignorance is bliss sometimes.

Senator Sherry—I am trying to recollect who does do representation for Minister Albanese. It is not my responsibility and not my representation.

Senator FIFIELD—They clearly need to raise their profile within government—whoever they are. Will matching funds be sought from state governments for some projects?

Dr Watt—That is to be determined.

Senator FIFIELD—But it is possible.

Dr Watt—Certainly it is possible; matching funds—more than matching.

Senator FIFIELD—It is even desirable that the states still maintain an interest in infrastructure projects. The big fear of course is that state governments will think, ‘Terrific! Infrastructure—we don’t have to worry about it anymore,’ and the Commonwealth will yet again have to step into the breach on what has traditionally been core state government business. It would be wonderful if there were some matching state government funds. Again, I guess the department of finance has no views as to where the critical infrastructure needs are?

Dr Watt—No, Senator.

Senator FIFIELD—Which is fair enough. Does the government have a broad overall policy to make sure that we never again get into the situation where we do have chronic infrastructure issues where the state governments have failed? We know that the government has proposed this fund. The government has yet to determine whether state governments will have to match funds in some projects that come out of the Building Australia Fund. What will the government do to stop the states just washing their hands totally of infrastructure responsibility?

Dr Watt—I do not think that is a question that I am able to answer. I think you will have to try that somewhere else.

Senator Sherry—And I am not here in a representational capacity in terms of infrastructure. That is not my responsibility.

Senator FIFIELD—No, I appreciate that.

Senator Sherry—The questions you have been going to are really for the other estimates committee.

Senator FIFIELD—I am just testing the extent of the knowledge and interest of the finance department, but you have outlined where the delineation is on that matter and I will certainly be putting those questions to the other department and to whoever the minister is—not that any of us can actually recall who it is.

Senator Sherry—It is representational.

Senator FIFIELD—I know, Senator Sherry, I know. You are a new government after all; you have only been there six months, so we could not reasonably expect people to know who does what jobs, particularly when they have not received their charter letters. I guess I would feel as though I was neglecting you, Senator Sherry, if I did not ask you about it.

Senator Sherry—No, no; Senator Fielding asked me.

Senator FIFIELD—I know he did, and I saw your original evidence, which was that you had received a charter letter and then you had not received a charter letter. All roads lead to charter letters.

Senator Sherry—If you are having difficulty identifying ministerial responsibilities, I am certainly having difficulties identifying shadow ministry responsibilities from some of the questions in estimates.

Senator FIFIELD—Given we have the benefit of Senator Sherry here, I thought he may be able to clear up the issue of charter letters.

Senator Sherry—I cleared it up.

Senator FIFIELD—Which is that you have not received a charter letter?

Senator Sherry—Correct.

Senator BRANDIS—I think you should leave Senator Sherry alone. I think he is being very manful in defence of the bad faith of his senior colleagues.

Senator FIFIELD—He is.

CHAIR—Are there any further questions?

Senator FIFIELD—I have expended mine.

CHAIR—Any further questions?

Senator BRANDIS—Not from me. I just came to see if I could be helpful.

CHAIR—As always! Thank you. I declare the proceedings closed for this evening. We will recommence at 9 am. I thank the officers of the department and the minister, and I thank committee members for their cooperation.

Committee adjourned at 9.20 pm