



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ENVIRONMENT, COMMUNICATION, INFORMATION
TECHNOLOGY AND THE ARTS LEGISLATION COMMITTEE

ESTIMATES

(Consideration of Budget Estimates)

TUESDAY, 27 MAY 2003

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SENATE

**ENVIRONMENT, COMMUNICATIONS, INFORMATION TECHNOLOGY
AND THE ARTS LEGISLATION COMMITTEE**

Tuesday, 27 May 2003

Members: Senator Eggleston (*Chair*), Senator Mackay (*Deputy Chair*), Senators Bartlett, Lundy, Santoro and Tchen

Senators in attendance: Senators Conroy, Eggleston, Harradine, Lundy, Mackay, Robert Ray, Santoro and Tchen

Committee met at 9.12 a.m.

**COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS
PORTFOLIO**

Consideration resumed from 26 May 2003

In Attendance

Senator Alston, Minister for Communications, Information Technology and the Arts

Department of Communications, Information Technology and the Arts

Executive

Ms Helen Williams AO, Secretary

Dr Alan Stretton, Executive Director, Arts and Sport Division

Ms Fay Holthuyzen, Executive Director, Communications Division

Corporate

Mr Craddock Morton, Chief General Manager

Mr Frank Nicholas, General Manager, Knowledge & Information Services

Legal

Mr Don Markus, General Manager

Financial and Business Services

Ms Jennifer Gale, Chief Financial Officer

Telecommunications

Mr Chris Cheah, Chief General Manager, Telecommunications

Mr Colin Lyons, General Manager, Telecommunications Competition & Consumer Branch

Mr Brenton Thomas, General Manager, Enterprise, Infrastructure Branch

Mr Simon Bryant, General Manager, Regional Communications Policy Branch

Mr James Barr, General Manager, Networking the Nation Branch

Mr Colin Oliver, A/g General Manager, International Branch

Ms Jane Hanna, Manager, Postal Policy Section

Broadcasting

Mr James Cameron, Chief General Manager, Broadcasting

Mr Gordon Neil, General Manager, Licensed Broadcasting

Mr Rohan Buettel, General Manager, Public Broadcasting

Mr Simon Pelling, General Manager, Digital Broadcasting & Spectrum Management

ICT IIP

Ms Beverly Hart, Chief General Manager, ICT Industry Division

Mr Philip Allnutt, General Manager, ICT Industry Development Branch

Mr Michael Sutton, General Manager, ICT Innovation Branch

Ms Kylie Browne, General Manager, Intellectual Property

Arts and Sport Division

Ms Karen Gosling, A/g Special Adviser, Arts and Sports Division

Mr Peter Young, General Manager, Film and Digital Content Branch

Ms Megan Morris, General Manager, Arts and Regional Branch

Ms Sally Bassar, General Manager, Sport and Private Sector Support Branch

Mr Kevin Isaacs, General Manager, M2006 Taskforce

Mr Peter Rush, A/g General Manager, Collections and Governance Branch

Old Parliament House (OPH) / National Portrait Gallery (NPG)

Mr Mike Perryman, Manager, Property

Mr Michael Richards, A/g Manager, Public Programs

Mr Andrew Sayers, Director, National Portrait Gallery

Mr Simon Elliot, Assistant Director, National Portrait Gallery

ScreenSound Australia

Mr Ron Brent, Director

Ms Mary Durkin, Deputy Director, Corporate Services and Public Programs

National Science and Technology Centre—Questacon (NSTC)

Professor Graham Darrant, Director

Australian Communications Authority (ACA)

Mr Tony Shaw, Chair

Dr Bob Horton, Deputy Chairman

Mr Allan Horsley, Member

Dr Ros Kelleher, Senior Executive Manager, Telecommunications

Mr John Haydon, Executive Manager, Universal Services Obligations Group

Mr John Grant, Executive Manager, Spectrum Marketing Group

Mr John Neil, Executive Manager, Telecommunications Analysis

Ms Maureen Cahill, Executive Manager, Customer Services Group

Ms Gill Kempton, Manager, Customer Services Coordination

Mr Darren Hooper, Manager Finance, Corporate Management Group

Telstra

Mr Bill Scales AO, Group Managing Director, Regulatory, Corporate & Human Relations

Mr John Stanhope, Director Finance

Mr Darian Stirzaker, Chief, Consumer Sales and Service

Dr Paul Paterson, Director Regulatory

Mr Don Pinel, Regional Managing Director, Telstra Country Wide, Queensland

Mr Anthony Rix, Executive General Manager, Service Advantage

Mr Dennis Mullane, Manager, Big Pond Network Capability

Australia Post

Mr Michael McCloskey, Corporate Secretary

Mr Peter Meehan, Chief Finance Officer

Mr Mark Howard, General Manager, Corporate Infrastructure Services

Mr Gary Lee, Group Manager, Letters

Mr Mel Jackson, Group Manager, Retail

Mr Stephen Walter, Group Manager, Corporate Public Affairs

Mr Terry Sinclair, Manager, National Logistics

Australian Broadcasting Corporation (ABC)

Mr Russell Balding, Managing Director

Ms Sue Howard, Director ABC Radio

Ms Sandra Levy, Director ABC Television

Mr Colin Knowles, Director Technology & Distribution

Mr David Pendleton, Director Finance & Support Services

Ms Lynley Marshall, Director New Media & Digital Services

Australian Broadcasting Authority (ABA)

Professor David Flint, Chairman

Mr Giles Tanner, General Manager

Ms Andree Wright, Director, Industry Performance & Review

Ms Jonquil Ritter, General Counsel

Mr Fred Gengaroli, A/g Director Planning

Mr Richard Fraser, Content Assessment, Assistant

Special Broadcasting Service Corporation (SBS)

Mr Nigel Milan, Managing Director

Mr Phillip Williams, A/g Head of Policy

Mr Jon Torpy, Manager, Finance

Mr Will Berryman, Head of New Media

Mr Tuong Quang Luu, Head of Radio

National Office for the Information Economy (NOIE)

Mr John Rimmer, Chief Executive Officer

Dr Rod Badger, Director/Chief Executive Officer

Mr Patrick Callioni, Chief General Manager, Strategy & Programs Group

Mr Keith Besgrove, Chief General Manager, Regulatory & Analysis Group

Mr John Grant, General Manager, Govt Services & Info Econ Group

Mr James Shaw, General Manager, Channel Development Branch

Ms Michelle Kinnane, General Manager, Business Strategies Branch

Mrs Anne-Marie Lansdown, General Manager, Access Branch

Mr David Kennedy, General Manager, Analysis Branch

Mr Ashley Cross, General Manager, eBusiness Branch

Mr Tom Dale, General Manager, Regulatory Branch

Ms Robyn Fleming, General Manager, Information Framework Branch
Mr Steve Alford, General Manager, IMSC/CIOC
Mr Tim Field, General Manager, Corporate & Governance Branch
Ms Kylie Carrett, Manager Finance
Mr Tony Judge, Manager Budget & Performance

National Library of Australia (NLA)

Ms Jan Fullerton, Director-General
Mr David Toll, Deputy Director-General
Mr Gerry Linehan, Assistant Director-General, Corporate Services

National Archives of Australia (NAA)

Mr Ross Gibbs, Director General
Mr Steve Stuckey, Assistant Director-General, Collection Management
Mr Peter Meadley, A/g Assistant Director-General, Corporate

National Gallery of Australia (NGA)

Dr Brian Kennedy, Director
Mr Alan Froud, Deputy Director

National Museum of Australia (NMA)

Ms Dawn Casey, Director
Mr Adrian Brocklehurst, Manager, Finance, Business Planning and Commercial Development

Australian National Maritime Museum (ANMM)

Mr Quentin Howarth, Assistant Director, Corporate Services
Ms Joan Miller, Finance Manager

Film Finance Corporation (FFC)

Mr Brian Rosen, Chief Executive Officer

Film Australia Limited (FAL)

Ms Sharon Connolly, General Manager

Australian Film Commission (AFC)

Mr Kim Dalton, Chief Executive Officer

Australian Film, Television and Radio School (AFTRS)

Ms Annabelle Sheehan, A/g Director (Head of Film and TV)

Australia Council

Dr Catherine Brown-Watt, A/g Chief Executive Officer
Mr Ben Strout, Executive Director, Arts Development
Mr John Wicks, Executive Director, Finance and Services

Australian Sports Commission (ASC)

Mr Mark Peters, Chief Executive Officer
Mr Michael Scott, Director, Australian Institute of Sport
Mr Brent Espeland, General Manager, Sport Performance and Development
Ms Lois Fordham, General Manager, Business Operations

Australian Sports Drug Agency (ASDA)

Mr John Mendoza, Chief Executive Officer

Telstra

CHAIR—I call to order today's estimates hearing of the Environment, Communication, Information Technology and the Arts Legislation Committee. I welcome Telstra back to the table this morning.

Senator CONROY—We were hoping for an update from Telstra.

Mr Scales—We have been able to get that information for you, and I will ask Mr Rix to go through that.

Mr Rix—I will run through the questions that I took down last night on notice. The first question was: has Melbourne been in contingency for all of 2003? The answer to that is that no, that is not correct. The second question was: how many days has Melbourne been in contingency for in 2003? Melbourne's faults contingency volume is 1,900 or greater—so it has to be 1,900 or greater for it to be in contingency.

Senator CONROY—Basically the same as Sydney.

Mr Rix—I have also been able to get that information. Sydney's contingency is 2,200.

Senator CONROY—Who determines that figure?

Mr Rix—That is determined by the work management centre. It is based on the amount of available resources and the workload.

Senator CONROY—Has that always been 1,900?

Mr Rix—I would not say that it has always been 1,900, but it has consistently been that number for this year—2003.

Senator MACKAY—So what does contingency mean?

Mr Rix—There are four levels of measure: low workload, normal workload, high workload and contingency. Contingency in this case would mean that there is an opportunity to look for additional resources, such as the use of overtime.

Senator MACKAY—So it means that things are so bad that you need to put extra people on?

Senator CONROY—It is an emergency situation; it is a case of dropping everything.

Senator MACKAY—It does not mean that we have an opportunity for staff to work overtime. Give us a break!

Mr Rix—No, not all. It is a way in which we flag that we need to do something out of the normal.

Senator LUNDY—Because the numbers are higher than average?

Mr Rix—That is exactly right. In saying that, this year in Melbourne there has been one time that the region has been in contingency, and that was during April—from 14 April through to 6 May.

Senator CONROY—That is almost a month. Melbourne has had almost no rain—I understand it is always much tougher to get things fixed when there is rain. Sydney has had flooding, so Sydney has a couple of other characteristics. So we have not had that much rain, but we did have a little bit of rain in that period—I am from Melbourne, in case you have not guessed by now.

Senator LUNDY—So what were the Melbourne figures?

Mr Rix—Melbourne has been in contingency once.

Senator LUNDY—But what are the Melbourne figures today?

Mr Rix—The Melbourne figures, as of this morning—

Senator CONROY—At 8 o'clock?

Mr Rix—At 8.15.

Senator CONROY—I have got 1,825. What have you got?

Mr Rix—We have 1,273.

Senator CONROY—At 8 o'clock this morning, I have got 1,825.

Mr Rix—I had 1,273 passed to me.

Mr Scales—Senator, if you could give us the source of your information, I am happy to go and check with them.

Senator LUNDY—No, they still want to have a job at 9.30!

Senator Alston—Their chance would be improved if we could be sure their information was accurate.

Senator CONROY—I am quite confident it is accurate.

Mr Scales—But my general point is that we do need to verify the information or else it is not possible to have a sensible discussion about some of these issues.

Senator CONROY—Absolutely. When did the contingency get changed to 1,900 in Melbourne?

Mr Rix—I could not answer that—last night you gave me a series of questions, and I went away and searched for that information—but I could take it on notice.

Senator CONROY—If you are able to get that in the course of the morning, that would be good. You have accepted that at some point in the last six months that contingency number has changed.

Mr Rix—No, not at all.

Senator CONROY—You said this year.

Mr Rix—This year certainly.

Senator CONROY—That is six months.

Mr Rix—I would have to take that on notice because I do not have an exact date. I will move on to some of the other questions about the current work force numbers in Melbourne, the percentage of contract work force in Melbourne and the percentage of internal staff in

Melbourne. The current work force in Melbourne, as of 3 May—as taken from the system last night—was 1,310. Contractor total made up 44 of those, and there were 1,266 internal staff. The percentage of contractors as a total of the work force was 3.35. In regard to how many man days of overtime were worked in Melbourne, Melbourne has worked on average 150 staff on a Saturday—that is throughout 2003—the lowest being 74 and the peak, during the April month, being 200. For Sunday, the average was 14 communications technicians—the lowest being zero and the highest being 80. In regard to how many Saturdays and Sundays Melbourne has worked, Saturdays worked total 21—the number of staff required to work on Saturday will vary, depending on the demand—and Sundays worked total five. With respect to what type of work Visionstream does in Melbourne—

Senator CONROY—Just on that last question, you have had people working on 21 Saturdays?

Mr Rix—That is correct.

Senator LUNDY—In the calendar year?

Senator CONROY—No.

Mr Rix—No, this is 2003—in this year.

Senator LUNDY—That is almost every weekend.

Mr Rix—It is every weekend. Working Saturdays is something Telstra does right across the board—that becomes one of our normal days of work. In regard to what type of work Visionstream do in Melbourne, the current Visionstream involvement is 12 people in Melbourne—they currently do 50 installations a day—and that is a total of 0.9 per cent of the total work force. In regard to how many job cuts have occurred in Melbourne so far for 2003, for this year there have been 17 from January, and from July last year there had been 104. So that is a total in the financial year of 121. They were the questions that I took on notice last night.

Senator CONROY—So there were 104 in the six months from July to December?

Mr Rix—That is correct.

Senator CONROY—And job cuts this year have come to 17. So that is a total of 121.

Mr Rix—That is correct.

Senator CONROY—So you add them together to get the total.

Mr Rix—That is correct. When you said ‘for 2003’, I thought that I would break them down for you.

Senator CONROY—I appreciate that; thank you very much. Is there such a thing as an acceptable level? Do you have a target that you define as acceptable for the running of the system? Is that—what did you call it—the ‘normal’?

Mr Rix—That is correct. In Melbourne our normal workload from a fault perspective will vary because we are flexible in our arrangements in doing work. It will depend on how many installations we are doing on a day, how many other programs of work we have. We do have the flexibility across obviously our fixing of faults, doing our maintenance programs, doing our installations—and that is across whether it is an installation for a standard PSDN line or

an installation for a broadband utility. We very much multiskill our people. We also have staff doing network work with both NDC and our NNS group. When we say ‘normal’, the normal fault volume that we use under contingency for Melbourne is up to 1,300.

Senator CONROY—Normal is 1,300?

Mr Rix—That is correct. The range for normal that we look at is between 850 and 1,300.

Senator MACKAY—In relation to Senator Conroy’s questions on contingency, my understanding is that it has always been 1,700 in Melbourne.

Mr Rix—Our contingency allows for greater than 1,900. On a Monday, coming in after a weekend—the Monday only—it is greater than 1,600. A Monday for Telstra is a particularly high inbound day, based on people and businesses coming back to work. So we have a separate number just for Monday. From Tuesday to Friday it is greater than 1,900 and for Monday it is greater than 1,600.

Senator MACKAY—I do not think that is what you said a minute ago. So it is 1,600 for Mondays and 1,900 for any other day?

Mr Rix—For every other day—that is correct.

Senator MACKAY—Contingency is in part an assessment of the available work force by the work management centre?

Mr Rix—That is correct.

Senator MACKAY—As well as a triggering of—

Mr Rix—As well as looking for further resources from some of our other work forces—that is, the people who would normally be on repair work on that day.

Senator CONROY—Does the phrase ‘acceptable level’ equate to your ‘normal’? I just want to make sure that we do not have a misunderstanding about language. Is that a familiar phrase to you?

Mr Rix—No, not to me at all. It is more about giving us a guide to the plans that we need to put in place for that day. That is the idea of breaking it into those four categories. As I said, when we plan a couple of weeks out we have a certain amount of people for a particular day. As we get closer to that day, obviously the plans get more and more accurate. On the day itself, once we get there, we juggle—I would suggest like any business—the priorities that come in on that day. We do rate repair work, certainly under our commitments to the regulatory environment, as a priority. If we do come in quite high, we will look at contingency in making sure that we meet our commitments. In saying that, it has been demonstrated as well that we have met our commitments, particularly in areas like Melbourne, over an extended period of time—we have predominantly had our service performance into the nineties. That has been a major improvement over the last five years.

Senator MACKAY—If contingency is in part an assessment of the available work force triggered by a level of faults which requires more attention than normal, effectively that means that if you have fewer staff contingency happens more often.

Mr Scales—Before Mr Rix answers that question, can I say that I think he was also trying to give you the impression that it is not only about faults. The point he was also trying to

make is that it is also about things like preventative maintenance and those sorts of issues. It is about a workload, which would include issues to do with faults; it will be issues to do with installation—

Senator MACKAY—No, but he used faults himself as a benchmark. I understand that it is more than faults. I understand what you are saying, but he benchmarked faults. That is a reasonable thing to do, I think.

Mr Scales—One element of it, obviously, is faults. But I am just trying to make sure that we get the breadth of what it is that we are using our staff for, and it is not only about faults; it is about how we meet customer's demands, which would be in a range of areas, as well as looking at our capability to do a range of preventative maintenance programs. We have already talked about those others at another time.

Senator MACKAY—That is important.

Mr Rix—The reason I spoke about faults was they were the questions that I was asked last night.

Senator MACKAY—I understand.

Mr Rix—I was attempting to put it in perspective across all of the work that Telstra performs in Melbourne.

Senator MACKAY—Just coming back to the question then, if it is in part an assessment of available workload triggered by a variety of factors, one of which is the issue of faults levels, then if you have fewer staff there must be more contingency—

Senator CONROY—There is more likelihood of contingency.

Senator MACKAY—because you have got work management centres assessing available staff and you have got people working every Saturday this year.

Mr Rix—There are probably a couple of points that you made there—certainly Saturdays as opposed to contingencies and normal days. One of the things that we do—and I mentioned this before—gives us an opportunity to put the appropriate level of resource on that day onto what we prioritise as work. So if there are 1,900, quite simply, contingency means that we do have other work that is going on that might be preventative maintenance work—and I have covered some of that off—or of a lower priority than customer facing or customer demand on that day. The word 'contingency' gives us the opportunity to move staff to that, and that is simply the way it is.

From a Saturday perspective, it is certainly Telstra's policy to serve its customers when customers want us there, and Saturday is certainly, in our metropolitan areas particularly, a normal day of operation. We do not get the same volumes in on a Saturday, but we do ask our people on a voluntary basis to work Saturdays. In other parts of the business, and in an area in which I am involved in, which is our fault rectification centres, we work seven days a week, 24 hours a day. We work across shifts.

Senator MACKAY—We will come to the macro issue of overtime a bit later, but I just wanted to say that if you have got fewer staff then contingency must occur more often. To say anything else would be a non sequitur, I would have thought.

Mr Rix—Yes, and I think that the numbers that I quoted today were that the contingency has not occurred that often in Melbourne.

Senator MACKAY—Not Melbourne, no.

Mr Rix—We go through cycles, of course. The reports that we certainly have published—and the ACA publishes its quarterly reports as well—clearly show that at certain times of the year we have less workload coming in, particularly around faults, and at other times of the year we have a much higher workload. I think that raises a very good point: that it is so important then to have a flexible labour model in which we are not resourcing to the peak at any one time; we are actually having a base resource and using a flexible labour model. I think in some of the programs that we run the use of that flexible labour model comes in at those times of contingency.

Mr Scales—The other thing we should say is that we are always trying to focus on outcomes in this process. As you know—I think we have discussed this at another time—if we look at the highlights of the ACA report in December we see that 95 per cent of services were connected on time, 91 per cent of services were repaired on time—

Senator MACKAY—Do not worry; we are coming to the ACA.

Mr Scales—I just wanted to make the general point that if you looked at each of those metrics you would see not only the point that Mr Rix has made—that is, improvement over a long period of time—but quite substantial performance on any one—

Senator MACKAY—The point we wanted to make is that fewer staff equals more contingency, and that has been conceded, I think.

Senator CONROY—I just wanted to come to an issue which I asked you about, which was about 2,050 faults on a Friday. Mine was a 9 a.m. figure. You quoted back to me a 5 p.m. figure of 1,523.

Mr Rix—Right; 1,523. That is correct.

Senator CONROY—That was on a Friday at 5 p.m.

Mr Rix—Yes.

Senator CONROY—I was quoting a 9 a.m. figure.

Mr Rix—I did not have that figure with me.

Senator CONROY—Logically, at the end of the day it is 1,500, unless you had people doing nothing.

Mr Rix—Or unless the volume that was coming in exceeded the amount of output on that day. But I think that your assumption there is correct.

Senator CONROY—Logically, it was higher than 1,500 earlier in the day.

Mr Rix—That is correct.

Senator CONROY—My information is that it was, as I said, 2,050, which is above contingency. My information is that Melbourne has been above contingency five times and that there have been five times that it has been signalled you are above contingency, even

possibly at your 1,900 figure. There have been a number of other times when you have been above your contingency figure where the contingency figure has not been called.

Mr Rix—I can only re-emphasise the point I have already made this morning from what I gathered overnight—and that was that, once this year, Melbourne has been in contingency and that was for the period of time that I quoted.

Senator CONROY—Maybe there is some overlap between what I am describing as five and that. I am told not, but I accept that there could be some confusion there on the definition.

Mr Rix—I would be happy to take on notice any of the information that you have and gather information relevant to that for you. There was one question earlier around the 1,900 and when that was. Since last August, the number was 1,900. I think that clears that up.

Senator CONROY—What was it before August?

Mr Rix—I do not have that information either. I could take that on notice.

Senator CONROY—Presumably you did not lower it, so presumably it has come up.

Mr Rix—I would have to take that on notice. I do not have that.

Senator CONROY—So last August it was changed to 1,900, but we do not know where from. Could we find out whether it went up or down?

Mr Rix—I am just reading further here. I would assume that that has gone up, because it says here that, based on some of the incentive trials and the productivity improvements that were realised, it became 1,900. That is all the information that I have on that. I would suggest that you are correct there that it did go up.

Mr Scales—What that implies is that going up is good.

Senator CONROY—That is a matter of opinion. It depends on whether you are outsourcing and making people work lots of overtime.

Mr Scales—In terms of our rating system, it indicates that we can move our rating system up and still be able to meet the sorts of outcomes that I mentioned earlier. That is what it implies.

Senator CONROY—Not if your system is based on ‘We’re in contingency; everyone’s got to stop doing all the other things on lower priority ones and rush off and get us below contingency,’ which is what contingency actually means.

Mr Scales—No. Contingency is, as I think Mr Rix has tried to describe, a form of rating system.

Senator CONROY—Yes, it is a rating system. I appreciate that it is a word, but the actions you take then because you have reached the word—

Senator MACKAY—It kicks in a series of things.

Senator CONROY—It kicks in a series of actions by Telstra.

Mr Scales—Yes, that is correct.

Senator CONROY—Which are basically ‘Drop everything else and get onto fixing this.’

Senator MACKAY—‘Work a lot of overtime, fix the faults, get the network organised.’

Mr Scales—That logic would hang together if we were seeing faults going in the reverse direction than what we have seen. We have been trying to say that, if you look at our performance over time, our performance has increased consistently over the five years that we have been talking about it. If I use the numbers which I just read out earlier, they are still moving in that direction.

Senator CONROY—Yes, you can say you have never been in contingency if you keep putting the number up. I will agree with you that there is some logic hanging there!

Senator MACKAY—I think it is called moving the goalposts, isn't it?

Mr Scales—The point I was trying to make with regard to that is that, if we are able to have different benchmarks by which we think we are at the point at which we need more people, that means that, as Mr Rix has said, we are acting more effectively, more efficiently, in terms of meeting our customers' demands. That was the only point I was trying to make.

Senator CONROY—There was something else that you were trying to determine, Mr Rix. You had an 8.15 figure and I had an 8 o'clock figure.

Mr Rix—My figure at 8.15 this morning was 1,273.

Senator CONROY—That is productivity in 15 minutes, I'll tell you!

Mr Rix—My figure has come directly from the manager down there. In correlating your figure with mine, I am not sure where yours has come from.

Senator MACKAY—That is fair.

Senator CONROY—When I get a moment's break, I will chase it up. Is it acceptable practice not to call contingency, if it is above contingency and you crack the 1,900 but you do not actually press the contingency button? Is that good practice? Is that frowned upon? Is that acceptable practice?

Mr Rix—We have mentioned that contingency is, as you said, a series of actions that we would take.

Senator CONROY—It is a trigger.

Mr Rix—It is a trigger.

Senator CONROY—The key is: it is a trigger. The question I am asking is this: if the trigger is not pressed when you reach the 1,900, is that acceptable management practice?

Mr Rix—No. The contingency is there for a reason, which is to take some appropriate actions to solve whatever issues we have at the particular time.

Mr Scales—It is also fair to say that the implication of the question is that somehow this is hard wired and that with all organisations—and Telstra is no exception to that—you are trying to have a general understanding of where you want to take certain actions. As you have already indicated with regard to the difference between Sydney and Melbourne, there are some different trigger points.

Senator CONROY—I am only talking Melbourne.

Mr Scales—I understand that.

Senator CONROY—Sue Mackay is going to do Sydney.

Senator MACKAY—We will talk the rest of the country later.

Mr Scales—I am talking about the generality of the ratings system, if you like. With all of these things, there are variations around those margins.

Senator MACKAY—But it is a moveable feast, I think is the point.

Mr Scales—And so it should be. That is the point I am making.

Senator MACKAY—Let us go to that issue, Mr Scales. I think the point you are making is that the benchmark which Mr Rix indicated for Melbourne in particular is around 1,900 on a non-Monday and 1,400 on a Monday. Is that right, Mr Rix?

Mr Rix—No. Let me just quote that again. For Melbourne on a Monday it was above 1,600 and the other number was above 1,900.

Senator MACKAY—What we are trying to get to here is when a contingency is triggered. It seems to us—and this is your opportunity to perhaps hose this done—that it is a moveable feast, so you can move the goalposts. If you move the goalposts, clearly there is less contingency. If you have an inexorable, there is a benchmark at which you can measure contingency. We are saying that we understand that contingency in Melbourne has been 1,700. You are now saying that for a non-Monday it is 1,900. The historical pattern of what is contingency is germane and critical to the argument.

Mr Rix—I am not certain that that is the critical issue here. The reason I am saying that is that the word ‘contingency’ is something that triggers an action internal for Telstra to react to. It is as simple as that. These are words that we use that trigger a reaction to a particular environment. No matter what the number is, at all times we are committed to moving that customer number. It sets up a form of actions and that is what that means. The number that I quoted was from August last year. I am able to take on notice what it was prior to that, whether it was 1,700 or whatever.

Senator MACKAY—I understand it is one of a series of benchmarks you use. But for the purposes of laypeople sitting in front of you, it is one that we can actually comprehend and that people talk to us about. What actually triggers a contingency is critical for us, because people are on about faults. So when we get to the rest of Australia, we will be asking similar questions about faults et cetera and when contingency, for want of a better term, is actually triggered.

Mr Scales, can Telstra explain their rationale for providing Minister Alston and the Prime Minister with free loans of luxury plasma television sets?

Mr Scales—The leadership team of Telstra has felt for quite some time that not every policy maker fully understood the experience that comes from digital television. Quite clearly, policy makers are trying to make very complex decisions about public policy issues. The leadership team felt that it would be sensible to help some policy makers experience that so that they were in the best position to think about them when they were making public policy decisions.

Senator MACKAY—What public policy imperative was addressed by the loan of the plasma TVs to the minister and the Prime Minister?

Mr Scales—I do not think we were trying to be too sophisticated about it. It is about the quality of the experience of digital television. In many ways, the market for digital television is as much about the quality of the experience as it is about the content. There are other issues around content which we could talk about.

Senator CONROY—Did you have a quality experience, Senator Alston?

Senator MACKAY—A frisson of quality?

Senator Alston—I am sure we have those on a regular basis.

Senator MACKAY—This is the bit of fun part. Sorry, Mr Scales, go on.

Mr Scales—That was the intention. For most people that have used digital television, that is the thing they come away with. They say, ‘This is a visual experience which I haven’t had before.’ Sometimes it is hard to quantify the value of that. That was the general decision that was made by the leadership team.

Senator MACKAY—When was that decision made by the leadership team?

Mr Scales—It has been an ongoing discussion within the team for well over 12 months. The decision to suggest to the minister that it might be sensible for him to have a loan of a television for a relatively short period of time was made around April or thereabouts last year.

Senator MACKAY—So when was the TV delivered to the minister?

Mr Scales—I cannot give you the exact date, but I think it was July or August or thereabouts.

Senator MACKAY—What about the Prime Minister? Was it the same?

Mr Scales—Yes, it was around about the same time.

Senator CONROY—Who is this new, emerging leadership team?

Mr Scales—Telstra has, as you know, a chief executive officer—Dr Switkowski. There is a group of people called group managing directors. I have the honour of being one.

Senator CONROY—So you were in the discussions?

Mr Scales—Yes, I have been involved in those discussions in a general way about the experience of digital television.

Senator CONROY—You were in the discussions that decided to hand out free plasma TVs?

Mr Scales—I was certainly involved in the general discussion around helping policy makers to understand.

Senator CONROY—Who else is part of this leadership team? Who else do we give the thumbs up to for this initiative? Don’t be shy!

Senator MACKAY—Helping policy makers have an experience!

Senator CONROY—There is Dr Switkowski—there is a doctor there for Senator Alston—and you. Who else was involved? Who do we congratulate?

Mr Scales—The other members of the leadership team are my colleagues David Moffat, Ted Pretty, David Thodey, Doug Campbell and Michael Rocca.

Senator CONROY—That is a big team to be sitting around—

Senator MACKAY—I think you need an affirmative action program there.

Mr Scales—That is quite an important point, and we are working on that.

Senator MACKAY—Do you have a plasma TV, Mr Scales?

Mr Scales—No, I do not, but I am considering purchasing one.

Senator MACKAY—Does Dr Switkowski have one?

Mr Scales—As I understand it, yes.

Senator MACKAY—From Telstra?

Mr Scales—Not from Telstra, as I understand it.

Senator CONROY—From anybody else? Is it his own or has somebody given it to him?

Mr Scales—I have not asked him where he purchased it from, but I know he does have one.

Senator MACKAY—He did not get it from Telstra?

Mr Scales—He purchased it, as I understand it.

Senator MACKAY—You will come back to us if that is not right.

Senator CONROY—You will check that one for us?

Mr Scales—I just can't give you—

Senator MACKAY—He has got a mobile phone tower, so he could have a plasma TV.

Senator CONROY—It is entirely possible. This team is a lot of people to be sitting around—

Senator MACKAY—It is a lot of money.

Senator CONROY—talking about which politicians to give a quality experience to.

Mr Scales—No, our discussions are generally on strategic issues, and this is a very broad strategic question—how we can encourage the development of digitisation in general, and the application of digital television in particular.

Senator CONROY—Who else, apart from the Prime Minister and Senator Alston, received one of these?

Mr Scales—To my knowledge, nobody else.

Senator CONROY—Why only those two? What is wrong with the Deputy Prime Minister or the Treasurer? Have you got something against them?

Mr Scales—No, certainly not. There is certainly nothing against either of those. I think the reason why the minister was supplied with one was relatively straightforward: he is the minister responsible for this general area, and it seemed appropriate to be able to give the minister the experience that I spoke about earlier.

Senator MACKAY—The visual experience.

Mr Scales—The Prime Minister is the head of the cabinet process. In our parliamentary democracy he is the person who has to arbitrate on a whole range of public policy questions from time to time, and so it was in that sense.

Senator CONROY—Anybody else; anybody from outside of politics—Max Moore-Wilton, for instance, a key former bureaucrat?

Mr Scales—No, we have not.

Senator LUNDY—Did the plasma TV come with a gratis subscription to Foxtel?

Mr Scales—My understanding is that Foxtel was included. The reason was that we were trying to give it the total—

Senator Alston—That is not correct, from my point of view.

Senator CONROY—You told us last time that your daughter organised all that sort of thing for you.

Senator Alston—We have had our own subscription to Foxtel for quite some time.

Senator CONROY—Did that cover Fox Footy? You have got to pay extra for Fox Footy, so I am just trying to work out whether Telstra fronted up for the Fox Footy channel. I know Senator Alston is a dedicated footy fan.

Senator LUNDY—What team would that be, Senator Conroy?

Senator MACKAY—Leave it. Give us a rest.

Senator CONROY—Senator Alston, did you get Fox Footy Extra with the Telstra deal?

Senator Alston—As far as I am concerned, I pay the Foxtel subscription. I do not believe that Telstra contributed at all to the Foxtel subscription.

Senator MACKAY—Did Telstra purchase the plasma TVs for the minister and the Prime Minister or did we have them lying around?

Mr Scales—We did not purchase them for the Prime Minister or for Senator Alston. We purchased them for display purposes.

Senator CONROY—They were on display in the Prime Minister's front room?

Senator LUNDY—Where were they before they were loaned to the minister and the Prime Minister?

Mr Scales—We purchased them for that particular purpose of display.

Senator LUNDY—Display in their homes?

Mr Scales—The system is a removable system so that we could take it from one spot to another. We use it also inside the company.

Senator LUNDY—So, in Telstra's books, for your purposes, you bought them for display purposes, not as a gift. Is that what you are saying?

Mr Scales—That is certainly the case.

Senator MACKAY—But they were purchased initially for the minister and the Prime Minister with the obvious objective—post the visual experience—of actually using them for display purposes?

Mr Scales—They were purchased for display purposes—

Senator MACKAY—And where were they first displayed?

Mr Scales—They were first displayed—

Senator MACKAY—in the Prime Minister's and the minister's houses.

Mr Scales—That is correct. But the intention was to purchase them for display purposes.

Senator MACKAY—But they had their first airing in the houses of the minister and the Prime Minister?

Mr Scales—I was trying to address the question that you asked me. The purpose of purchasing them was for display purposes.

Senator CONROY—You would not have bought the cheapo model, would you? You would not have gypped the Prime Minister and the minister for communications? You would have bought the top-of-the-range model. I modestly estimated that they were worth \$10,000, but I have recently been advised that that would be the absolute minimum you could pay for a plasma screen. So what were these two TVs worth?

Mr Scales—My understanding of it is that for the total package, which included the cabinets and all the ancillary elements that go with the cabinets, the total cost was between \$15,000 and \$20,000.

Senator MACKAY—Per TV?

Mr Scales—No. I am separating out the television from all the ancillary equipment in total because, if I could go to the point that Senator Conroy made, we deliberately tried not to go to the most upmarket model—

Senator MACKAY—The \$30,000 model?

Senator CONROY—You did not want to maximise the quality of the experience?

Mr Scales—because we felt it was appropriate to—

Senator MACKAY—Mr Scales, you are doing well not to laugh, I have to say.

Mr Scales—I am trying to bite my lip.

Senator CONROY—You are the only one in the room surviving. You are doing an excellent job.

Mr Scales—So it was roughly that sort of number.

Senator MACKAY—What was that again?

Mr Scales—Somewhere between \$15,000 and \$20,000 in total.

Senator CONROY—\$15,000 to \$20,000 for the TV.

Senator MACKAY—For the TV?

Mr Scales—No, for the total package associated with it.

Senator MACKAY—Per unit?

Mr Scales—Per unit. That is correct.

Senator MACKAY—Between \$30,000 and \$40,000 for the two?

Mr Scales—Approximately those numbers, yes.

Senator CONROY—Where are they now? Where are they on public display now?

Mr Scales—We are displaying them inside Telstra at the moment because we want our own staff to understand that same experience. We have done exactly the same for some of our other buildings: we have displayed visual digital television so that again our staff can understand that.

Senator MACKAY—Where are they?

Mr Scales—They are in our offices. I cannot give you the exact spot at the moment because they do move around. But that was the purpose.

Senator CONROY—From what you tell me, Senator Alston said they were fixed, that they did not move around easily. I asked him if he rolled it into his bedroom to watch the footy at night.

Mr Scales—Our preference would have been to have been able to provide them even to the Leader of the Opposition because we think he would gain from a similar experience, but I suppose the controversy about this has made us a bit sensitive about even making the offer. Senator Conroy, if you would be interested in having the same experience, I would be only too happy to make that offer. On a more serious note, it would be valuable for the opposition to experience exactly this issue.

Senator CONROY—Perhaps the Democrats as well—though they are not here—and Len Harris and Meg Lees.

Mr Scales—If you feel as though you or Senator Lundy or Senator Mackay—

Senator LUNDY—Maybe we could just go to a department store and experience it, as do most other Australians that have not purchased one.

Senator MACKAY—He is having a lend of us.

Senator CONROY—You made the decision in April or May and it was installed in July?

Mr Scales—Around about that time, yes.

Senator CONROY—It was kindly given back about when?

Mr Scales—Around March.

Senator CONROY—Both of them? I would have thought they were given back sooner than that, Senator Alston. Did you hold on to it until March? Did you get the whole cricket season out of the way?

Senator Alston—I thought I read something yesterday saying it was 10 February, but I may be wrong.

Mr Scales—It could well be. We might just check those dates out.

Senator CONROY—February, did you think, Senator Alston?

Senator LUNDY—If I could go back to the Foxtel subscription, Mr Scales, you started to say that it was part of the package.

Mr Scales—Just on that date, it could have been late February or early March. It was around about that time.

Senator LUNDY—What was your understanding of the inclusion in the package of Foxtel subscriptions or part thereof—if not for Senator Alston, then for the Prime Minister?

Mr Scales—I cannot answer that question. I will need to take it on notice.

Senator LUNDY—In terms of the visual experience you were trying to afford the minister and the Prime Minister, what content was on show that Telstra had an interest in, if not Foxtel?

Mr Scales—It was just the general experience of viewing digital television.

Senator LUNDY—Tell me what Telstra's interest is in making that appealing and accessible to the relevant minister and the Prime Minister?

Mr Scales—There is an ongoing debate around digitisation. Telstra is a 50 per cent owner of Foxtel.

Senator LUNDY—That is one potential area of interest.

Mr Scales—That is one element of it.

Senator LUNDY—Any other?

Mr Scales—Other than the points that I have covered, I do not think I have anything else to add.

Senator LUNDY—So the main pitch is: look how good Foxtel is; look what a quality experience our digital service is on pay TV.

Mr Scales—No, I do not think it was quite as specific as that in our minds when we were thinking about this issue.

Senator LUNDY—That is not much to hang off such a generous gift or loan, though, is it?

Mr Scales—The decision that we made was that this was an appropriate thing to do at the time.

Senator LUNDY—Minister, what was your understanding of the reason behind Telstra doing this?

Senator Alston—It was said to me that there was a deal of complexity involved in current hardware arrangements. In other words, whilst the experience of digital television provides high-quality resolution and therefore is attractive in itself—which again, I think, in some areas is contested—there are those who would disparage digital television on the basis that it simply offers pretty pictures and pretty pictures are not going to be a driver. I think that was one area where it was important to understand the quality of the picture. But there was also complexity surrounding the different devices that were needed to operate the audio and the screen itself—in other words, there was not one remote control device that operated the entire unit; you had to operate them separately.

Senator LUNDY—Did you get lessons?

Senator MACKAY—But that is just on how to work a TV. That is nothing to do with whether it is plasma or not.

Senator LUNDY—No, I will come to that. Did you get lessons on resolving the complexities of having more than one remote?

Senator Alston—As there often are, there were instructions attached. There was a debate—there has been a debate for quite a while—about whether we should mandate a common set-top box, for example, and several of the free-to-airers at least have argued for that.

Senator LUNDY—Say that last bit again.

Senator Alston—Several of the free-to-airers, particularly Channel 10, have urged the government to mandate a common set-top box for dual platforms, and I think having an awareness of the complexity was one element in making a decision on that policy issue.

Senator LUNDY—So let me get this clear. One of the reasons you understood was so you could understand the complexity of the Foxtel set-top unit and, conceivably as a pitch by Telstra, to argue against a common set-top box. Is that right?

Senator Alston—I am not in a position to say what Telstra's motivation or understanding was.

Senator LUNDY—No, but I am just—

Senator Alston—You are asking me—

Senator LUNDY—I am trying to interpret what you are telling me.

Senator Alston—I am not—

Senator LUNDY—If I am wrong, just say that, but that is the way I interpreted what you said.

Senator Alston—You have been asking me what I think was Telstra's understanding and I am saying to you I am not in a position even to speculate on what Telstra's understanding might be. The decision that we made was that it would assist in understanding the technology involved and therefore the total offering, and given that there were ongoing decisions to be taken in relation to digital television it is useful to have had a practical experience.

Senator LUNDY—And what was your conclusion following this experience? Did you find—or have you concluded perhaps—that Foxtel's and Telstra's view of the world, of how the set-top box unit should be managed, is appropriate or is your mind still open? Have Channel 10 offered an alternative technology for you to try?

Senator Alston—I do not know what Foxtel's view of the world is, but we have conducted an exhaustive examination of the implications of mandating a common set-top box and we have essentially said that we do not think it is appropriate in metropolitan areas. We have had regard to developments overseas where, in the US, they have mandated—I think progressively from about 2005 onwards—that a digital tuner should be embedded in new television sets. These are ongoing decisions that are made in the light of evolving technology.

Senator MACKAY—What did you get out of the visual experience that was provided to you by Telstra in the shortish period that you had the plasma TV for?

Senator Alston—I think it is fair to say that the higher quality resolution does provide a better consumer experience.

Senator MACKAY—But you already knew that, didn't you, Minister? Did you need a TV for eight months to tell you that?

Senator LUNDY—It is a bit odd, because you actually legislated for high-definition television, as I recall, in the digital TV debate. Going back to the point about the set-top box and having a common standard, I make the observation that following this experience with the plasma TV and the Foxtel technology you actually have drawn a conclusion that it is not appropriate to have a common set-top box mandated in metropolitan areas.

Senator Alston—At this point, yes—and we have explained that to all of the stakeholders, not just the networks, and we have provided very exhaustive analysis of the competing arguments. I think it is certainly an important issue, and it is one that Channel 10, for example, would still wish to continue to urge upon the government.

Senator LUNDY—So the message to everyone out there with technology is: if you get your technology into the minister's house, or into the Prime Minister's house, you have got a better chance of him supporting your view.

Senator Alston—We conducted a very exhaustive analysis of that issue. We were certainly not taking a Telstra view of the world. We were making our own judgment on the basis of submissions and consideration of all the issues.

Senator LUNDY—Regardless of how pure your view, though, that is the perception that has obviously been created.

Senator Alston—I am not in a position to determine perceptions. If you have perceptions and you want to put them in the marketplace, that is your prerogative.

Senator LUNDY—Was it standard definition or high definition?

Senator Alston—My understanding is it was a high-definition—

Senator LUNDY—screen. But you would not have seen any high definition on it, would you?

Senator Alston—Probably not.

Senator LUNDY—Because I do not think anyone is making it.

Senator Alston—It depends. As you know, there have been trials. From 1 July, there is a mandated requirement. At various times each of the channels has been providing high definition, but you have to be there at the particular time to be able to experience it; otherwise, you are experiencing standard definition.

Senator MACKAY—Have you got anything else from Telstra?

Senator Alston—No.

Senator MACKAY—Mr Scales, have you given any other minister anything—free loans, equipment?

Mr Scales—Just before I try to answer that question, I have been advised that we did not provide a subscription to Foxtel to either the Prime Minister or the minister at the table here. What we did was connect the televisions to their existing subscriptions.

Senator MACKAY—Did you did give him a BigPond connection?

Mr Scales—Not that I am aware of.

Senator MACKAY—Is there anything else that ministers have got from Telstra—by loan, gifts or equipment?

Mr Scales—Not that I am aware of. Clearly, I am a bit reticent here, because from time to time we might show people a phone and how it works and we might give people in business and even in departments and elsewhere a phone for a day or two so that they can see what a new phone might look like. So I am a just a bit loath to say no, knowing that that is a possibility. You would understand why it could be that we might do that as part of our normal business. That is why I am slightly reticent.

Senator MACKAY—Just to be absolutely clear: has anybody else been given a loan by Telstra of a plasma TV?

Mr Scales—Not to my knowledge.

Senator MACKAY—Can you be more specific?

Mr Scales—Part of the reason is to do with the question I tried to answer earlier about this particular unit that we are wanting to use to display digitisation and digital television. I am almost certain that it is being used currently and has been used since we brought it back from the establishments of the minister and the Prime Minister. We have not given it to anyone else partly because, as I said earlier, we have been concerned about how it might be interpreted.

Senator MACKAY—But before this was revealed at the last estimates did anybody else? What about anybody at the ACA?

Mr Scales—Not to my knowledge.

Senator MACKAY—I really would like an answer on this.

Mr Scales—I will try and get you an answer on that. We will take it on notice.

Senator MACKAY—Anybody at the ABA?

Mr Scales—I will take that on notice to make sure I am giving you an accurate answer to that.

Senator MACKAY—We do not want to wait for months for an answer.

Mr Scales—But I will take it on notice so that I can give you an accurate answer.

Senator MACKAY—Let us just go through the key players. Can we establish that nobody in the ACA has been given a loan of a plasma TV?

Mr Scales—Not to my knowledge.

Senator MACKAY—Does anybody else in Telstra know?

Mr Scales—As I said, I will take that on notice and see whether there are any issues.

Senator MACKAY—Would anybody in the ABA have been given the loan of a plasma TV?

Mr Scales—Not to my knowledge.

Senator MACKAY—You seem to be taking the fifth here, Mr Scales.

Senator CONROY—Mr Rix, returning to an issue we were talking about before, when you go through the process of finding out how many faults you have, I presume you have a computer that gives you a regular tally of logged calls, backlogged jobs and that sort of stuff. For instance, at 8.15, I think you said there were 1273 calls.

Mr Rix—That is right.

Senator CONROY—Is that after jobs have been distributed?

Mr Rix—No, that is what is sitting in total faults at the time. We do not take them off until jobs are completed. I have actually gathered some information as well. Based on the question last night, out of the total jobs we look specifically at the field work force and what we call the access network and the customer private equipment faults, where someone goes off to reactively fix a fault that has come in—they are the numbers I am quoting. They are the standard numbers that match up with those numbers around contingency. That is a dedicated work force that is going out each day to respond to an interaction we had with a customer who reported a fault. That is the number that I am quoting

Senator CONROY—You would have to be notified during the course of the day—

Mr Rix—Or in our system.

Senator CONROY—that the job is completed before it is taken off that number?

Mr Rix—That is correct.

Senator CONROY—So it is not when the job is sent out?

Mr Rix—No.

Senator CONROY—They are sent out in batches, I understand, to individuals: ‘Here are three or four for the day.’

Mr Rix—There are different processes. It depends on the complexity of the work. Some of them would go off individually if there was quite a complex job. Others, if they were in the same geographical area, could get a couple at a time. That makes common sense.

Senator CONROY—But they are not deleted until they are reported back as being completed.

Mr Rix—No. I stress that the number I am quoting is the standard across Australia for measuring our low workload, our normal workload, our high workload or our contingency. That is based on the number of staff that do that type of work. Obviously I do not count any faults in our cable TV area, because we have a separate dedicated work force. That is not part of a CSG requirement, for example. So these are only the CSG requirements, business faults and corporate and government faults that are there on that day. That is what is taken into consideration.

Senator CONROY—And retail?

Mr Rix—Retail, wholesale—all of those would be included in that.

Senator CONROY—So the only thing excluded is cable TV?

Mr Rix—No, there would be other exclusions. There would be some proactive work. Of a night, we proactively test our network. They are not customer faults. We do not even know that it is a fault at the time. What we have seen is a change in the configuration of a line and it seems to be a bit outside the perimeters. There may be some of those that are separate. What we would do with those is contact the customer first to see how their service is working and whether they have done something.

Other faults would be around payphones where, on the payphones themselves, we have had either some vandalism or coins jammed—they are not a network fault. They would be there as well. Some other faults would be alarms, from an exchange perspective. Once again, they are not necessarily faults at that particular time, but they do require investigation. So there are other things, but we do have a dedicated work force. As you would be aware, our global operations centre would be doing some of this. I just stress again that the numbers that I gave you are consistent with the way in which we manage our field work force and our customers, when they have reported something, with regard to getting that match right—to meet either our customer commitment dates or our regulatory requirements.

Senator CONROY—I may come back to you on some of that a bit later.

Senator LUNDY—I would like to turn to the issue of Telstra's IT outsourcing. I have a number of media reports here about the extent to which Telstra is planning to use, in particular, software and IT companies that source labour from India or, indeed, outsource work specifically to India and possibly other countries. Can Telstra confirm these media reports that it is using IT workers from Indian IT labour hire firms to perform IT functions?

Mr Scales—Telstra uses a range of IT companies. I am not sure that you were here at the time, but Senator Murphy raised a number of these issues last night.

Senator LUNDY—I understand that Senator Murphy will come back and join us.

Mr Scales—He raised an issue yesterday which sounds very similar to this. I tried to give a number of answers to Senator Murphy yesterday when he raised this issue. I presume you are talking here about the press reports that relate to our applications and our broad maintenance services. Are they the ones that you are referring to?

Senator LUNDY—I am interested in a general view at this stage, and then I will get to those specifics.

Mr Scales—In general, we use a number of very large international companies when we purchase IT. We use, as you know, IBM GSA, Deloitte Consulting, EDS—

Senator LUNDY—Can I just confirm the value of the existing contracts you have with those companies. One of the newspaper reports nominated amounts of the existing contracts. They are ballpark figures. Just to confirm that, you have a \$500 million agreement with EDS which covers applications development, maintenance of billing and shared services activities.

Mr Scales—I am not sure whether it would be appropriate for me to go into the exact details of each of those contracts.

Senator LUNDY—I am not asking for exact details; I am asking just for a general description.

Mr Scales—As you can tell, I am going to try to answer your questions as fully as I can, but it is difficult for me to be able to disclose information that those companies themselves might find sensitive. Let me try to go as far as I can without—

Senator LUNDY—Hang on—you are the client; they are doing work for you.

Mr Scales—Yes, I know that.

Senator LUNDY—So it is your call. I want to know what you are spending on them, not what they are doing as far as negotiations or whatever.

Mr Scales—That is true, but let me try to answer the first point. The general amount of spend in this area by us is roughly \$1.4 billion or \$1.5 billion. The reason that I prefer not to get drawn into the exact amount for each of those companies is that they are in competition with each other.

Senator LUNDY—I am reading from a newspaper report, and I am seeking just a general confirmation that they are the sorts of ballpark figures.

Mr Scales—I am trying to say that we currently work with three very large companies, and they are the ones that I mentioned earlier.

Senator LUNDY—So that is IBM GSA—

Mr Scales—Deloitte Consulting and EDS.

Senator LUNDY—In terms of figures, this report says that EDS is worth about \$500 million, Deloitte is worth about \$300 million and IBM GSA is worth about \$458 million.

Mr Scales—They are broad ballpark figures, without trying to interpret them.

Senator LUNDY—That is what I was looking for. I guess it is from a compilation of those figures that you come up with your ballpark figure of about \$1.4 billion or \$1.5 billion.

Mr Scales—That is correct.

Senator LUNDY—If you add those figures up it comes to about \$1.2 billion. Are there any other substantial costs incurred or other significant contractors that make up that bundle of IT vendors?

Mr Stanhope—About 28 per cent of the work goes to a number of smaller contractors, such as Expert—who would probably be one of the larger of the smaller contractors—

Senator LUNDY—What do they do?

Mr Stanhope—They have been working on our front-of-house system, which we call STS.

Senator LUNDY—Is it an Australian software company?

Mr Stanhope—Yes, it is an Australian company. They have had about 220 or so people working on that.

Senator LUNDY—Are you able to give me a ballpark figure of the value of the contract?

Mr Stanhope—No, I am not—

Senator LUNDY—Is it \$50 million? Is it \$100 million? Is it between \$50 million and \$100 million?

Mr Stanhope—It would be around \$50 million.

Senator LUNDY—Are there any other sizeable standout contracts that you would like to mention?

Mr Stanhope—There are no other large standout ones.

Senator LUNDY—Can you tell me a little more about the period of these contracts? Are those values attributed to the annual spend?

Mr Stanhope—That is the annual spend. We are talking about our total spend on IT—on applications, development and maintenance—which is around \$1.5 billion per annum across those major suppliers and those other, smaller suppliers that I mentioned. So it is a per annum spend. The contracts vary in length, and that is determined when we strike the contract.

Senator LUNDY—Are they typically five-year contracts?

Mr Stanhope—The big ones would go to around that term.

Senator LUNDY—One of the news reports actually talks about Telstra approaching those three large companies in particular and asking them to rebid prior to their contracts having concluded. Is that the case?

Mr Stanhope—Yes, we have approached those companies. Telstra is going through an IT transformation. We have found that the engagement model is not really delivering exactly what we want. Let me tell you what I mean by that. Telstra is an IT dependent company; there is no doubt about that with that sort of spend, and it is all about delivering all our systems—front of house, back of house, product development and all those areas. We are very IT dependent. We need to actually strengthen our internal IT skills but we need to also apply leverage for global best practice. So we have gone back to these contractors and said: ‘We want to change our model so we can establish what we have called solution centres, where we want to develop the skill of specifying our requirements much more clearly and keeping the IP—the intellectual property—inside Telstra. We also want to implement quality tools such as Six Sigma, and we want to lift the quality of our software development.’

I do not know if you are familiar with the CMM—capability maturity model—but we want to raise the level of supply from our outsourcers to level 5, which optimises the delivery of software. From that we want to get improved quality, speed to market, common delivery processes, and ownership and protection of our intellectual property. That is why we have done that. We have asked those suppliers to consider our new engagement model.

Senator LUNDY—I presume Telstra still has its ownership stake in IBM GSA?

Mr Stanhope—Yes, we do.

Senator LUNDY—What is the value of that ownership stake to the company?

Mr Stanhope—The value?

Senator LUNDY—Yes. I know IBM GSA make a bucketful of money every year, so you would presumably get your 22.6 per cent return on—again, I am referring to a *Financial*

Review article dated Tuesday, 20 May this year—revenues of \$1.71 billion. It is not a bad return.

Mr Stanhope—We do not sit down all the time and consider IBM GSA's value to us as a business.

Senator LUNDY—Just tell me if I am wrong: when Telstra originally became one of the partners of IBM GSA—from recollection, a founding partner of IBM GSA—

Mr Stanhope—That is correct.

Senator LUNDY—IBM GSA were pursuing a certain business model of IT outsourcing that reflected the global trend at the time, that Telstra applied to itself and that IBM GSA then set about applying to, for example, other big organisations, like government departments. Don't you reckon that model is any good anymore?

Mr Stanhope—We are saying that engagement model is not appropriate for us anymore.

Senator LUNDY—If it is not appropriate for you, what are you doing to ensure that IBM GSA, in which you have a 22.6 per cent interest, is not going about putting in place that model that you know is unsuitable for large organisations and, in this case, Telstra—or don't you care about that?

Mr Stanhope—Yes, we do. We care.

Senator LUNDY—Because you have some common directors, don't you?

Mr Stanhope—Yes—in fact, Mr Scales and I are both directors.

Senator LUNDY—You are on the boards? Then you would know exactly what I am talking about.

Mr Stanhope—IBM GSA discusses how it operates as a business and how it needs to change, and it recognises that it does need to make some changes.

Senator LUNDY—So do you negotiate with yourself when it comes to renewing these contracts?

Mr Stanhope—No, Mr Scales and I are not at all involved in the contract negotiations.

Senator LUNDY—But whose boardroom do you remove yourself from—Telstra's or IBM GSA's? Or do you remove yourself from both?

Mr Stanhope—I do not attend the Telstra board meeting.

Mr Scales—No—and, certainly, we have very strong Chinese walls within the company about how any issues are handled in this regard. We do not get involved in any of the discussions associated with IBM GSA and the contract arrangements. What we try to do is separate out very clearly our role as a minority partner in IBM GSA from the contractor role that IBM GSA has with Telstra. They are two quite separate and distinct responsibilities.

Senator LUNDY—But you can appreciate that, with Telstra's interest in IBM GSA negotiations about the possible early termination of a contract or significant changes to a contract and with Telstra management on the IBM GSA board, there is a very strong perception that there could be a conflict of interest—and if not a conflict of interest then an extremely compromising situation for one or the other.

Mr Scales—The joint venture was in fact established with that in mind—so that there would be directors from the various joint venture partners to enable the experience of the various businesses to come to bear on the venture itself. It was also well understood that, to put that particular structure in place, the directors from within those joint venture partner companies would have to abstain from decisions that related to the contractual arrangements between those companies and Telstra—and that is in fact what happens. Mr Stanhope and I have no involvement in the contractual relationships between IBM GSA and Telstra. That was, in a way, the business model that was established going back quite a few years. It was quite deliberate.

Senator LUNDY—Just going back to how you source your IT, the newspaper reports say that Indian IT workers are coming from the companies Infosys and Satyam. Who are those companies subcontracted to, as far as your vendors go, or are they engaged directly by Telstra?

Mr Scales—To give a bit more detail, as I was giving to Senator Murphy yesterday, those are two additional companies which we are adding to the list of people that we may want to do business with into the future.

Senator LUNDY—Do you currently do business with them?

Mr Scales—We do a small amount of business with Infosys. It is quite minor and I do not have the exact details. It would be in the millions or, at the most, tens of millions, but in the context of our total IT spend it is very small. But what we have said to these companies—and we have said it to them for one very good reason, and that is that these two companies are now being recognised as some of the better IT companies in the world—

Senator LUNDY—Why—because they can cut their software costs down by using cheap wages?

Mr Scales—The reason they are now recognised as being some of the best software companies in the world is primarily because of their quality and delivery.

Senator LUNDY—It has nothing to do with cost?

Mr Scales—For all of our companies, cost is an issue, but it would be quite wrong of me to suggest that it is the only one. What we try and do with all of our software suppliers is to act on primarily four main characteristics. One is delivery time. Picking up on the point that Mr Stanhope made earlier—given that we are primarily dependent on high-quality software, delivery and timeliness of delivery is critical for us. We are in a cutthroat business and we must have that. Both of these companies are capable of providing that.

Senator LUNDY—I appreciate that. I am going to give you an opportunity to talk about the arguments why, but I have a series of pretty straightforward questions basically confirming what has been reported in the media.

Mr Scales—I just wanted to answer the question that you asked me. The second one was around quality—and Mr Stanhope mentioned to you earlier the issue of quality. The third one is the issue of technology and having the best technology available and the highest-skilled people that we can find. The five companies that I have mentioned, including some of the

smaller ones Mr Stanhope mentioned, fall into the general category. The fourth category is obviously the question of efficiency, which includes price.

Senator LUNDY—You have confirmed Infosys.

Mr Scales—That is correct.

Senator LUNDY—Can you tell me the detail about the relationship with Infosys and whether it is effectively a labour-hire arrangement?

Mr Scales—It is a software company to the same extent as those other companies that I mentioned earlier are software companies.

Senator LUNDY—Are they associated with a particular piece of software that they are building or supporting and servicing for you?

Mr Scales—No. They generally create software.

Senator LUNDY—Are they creating software for you?

Mr Scales—They will be creating software for us.

Mr Stanhope—If they are selected.

Mr Scales—If they are selected. Thanks, John. The point I need to make is that there has been no decision made here. We are asking people to submit to us a proposal which will enable us to decide which companies we want to work with some time in the future.

Senator LUNDY—What about the other one, Satyam? Do you currently have a contract with Satyam?

Mr Stanhope—Satyam has done a little piece of work for us. They have had five to six people working for Telstra for a little while, mainly doing some consulting work or business process suggestions. They have not yet developed any software for us.

Senator LUNDY—Was that relationship managed via a contract?

Mr Stanhope—I cannot be absolutely sure. I would have thought they would have gone through our normal contracting process, but let me confirm that absolutely.

Senator LUNDY—Can you tell me what salaries the people from Satyam are being paid?

Mr Stanhope—Satyam has made the following public reports: Satyam staff working for Telstra—and there are fewer than 10, so five to six or so—are all based in Australia and 70 per cent of Satyam employees in Australia are paid more than \$60,000 per annum.

Senator LUNDY—Do you know that or are you working from the media reports and Satyam's response?

Mr Stanhope—They have told us the same thing.

Senator LUNDY—Are you aware if Satyam provide applications development, service and support in India?

Mr Stanhope—Do they develop software in India?

Senator LUNDY—Yes, and do they provide that service on a global basis to companies like Telstra?

Mr Stanhope—They do not provide it to us now.

Senator LUNDY—I know that; that is not my question.

Mr Stanhope—Yes, they do.

Senator LUNDY—So their business model generally is to provide that kind of support to global companies.

Mr Stanhope—Sure, but they are not just in India.

Senator LUNDY—Yes, that is right. What about Infosys? How many Infosys people have you employed and what were the salaries of the IT workers engaged through Infosys?

Mr Stanhope—We have had about 10 people at most in the Telstra office from Infosys and another 10 people working out of the Infosys office in Melbourne, so about 20 people. They have been working on three Telstra projects: a project called Osca—forgive me, I do not know what it stands for; a project called BIMS—a business initiative management system—which is a fairly small system to track our benefits and so on; and some application and maintenance work. The lowest remuneration that Infosys pay their people in Australia is about \$5,700 a month, or \$68,000 per annum on an annualised basis. That is the number of people now. At the peak, they had about 40 people working for Telstra. That was only for a few weeks and it would have been on that major project called BIMS.

Senator LUNDY—Were any of those people working from India or in India, or moving between India and Australia?

Mr Stanhope—I think some of those people were from India.

Senator LUNDY—So they were here working on the project?

Mr Stanhope—Yes.

Senator LUNDY—Can you guarantee that they were being paid the salaries that you describe?

Mr Stanhope—I have only got the information that Infosys has given us. I cannot guarantee that.

Senator LUNDY—Have you sought those guarantees from Infosys, and indeed from Satyam—that what they have said publicly is actually the truth? This is coming back and reflecting on you, so I would have thought it would have been in your interest to ask those questions and get definitive answers.

Mr Scales—The answer is yes, we have, and that is why the public statement was made by Infosys. These are international companies. They are employing literally thousands of people—9,000 to 15,000 people. They are very large companies. When we have raised this question with them they have made the point to us—and they have made it publicly in their statements—that their reputation is extremely important to them. They know, as all software companies know, that unless they can attract very high-quality people to be able to provide the software services then they will not be successful. For them to be able to attract high-quality people they need to be able to pay them appropriately in whichever market they operate. Both of these companies operate in Europe, the United States and the Oceania region, as well as in parts of Asia and in India. These are substantial companies.

Senator LUNDY—What efforts is Telstra taking to canvass the capability of Australian software and applications development companies? I think TPI is mentioned as providing some advice. Are you paying equal attention to exploring the capability that is available here in Australia?

Mr Scales—We are, and I think that was the point that Mr Stanhope made about a range of smaller companies that we are dealing with all of the time—

Senator LUNDY—Sorry to interrupt, but this is a really important question because you are obviously dealing with a model that is driven by the multinational IT companies model of IT outsourcing. Forgive me for making the observation, but you have been burnt by that and it is costing you too much—or you believe it is—so you want to do something about it. Now it seems that you are exploring another model that is the latest one being promoted by global IT vendors. Somewhere in the mix you are still neglecting to pursue local industry solutions and perhaps avoid getting into the same kind of trap that you have gotten yourselves fair in the middle of with the previous business models. I appreciate that the scale you are dealing with is very large, but I am sure you appreciate the extensive capability and incredible opportunities that working with local companies would provide to our local economy, not to mention Telstra itself.

Mr Scales—Clearly we do, and we pride ourselves on our ability to work with local companies. You would know, Senator, that around 70 per cent of our total spend is in Australia—that is, 70 per cent of our total spend, not only our spend for IT—so we take that very seriously. Let me try to answer your question, because it is a very important one. What we are about to establish—and, in fact, Dr Switkowski has asked me to establish it—is what, for want of a better name, we are calling at the moment the Telstra Navigator. What we are finding is that people are finding it very difficult to penetrate Telstra, for reasons that I am sure people have come to you about.

Senator LUNDY—In terms of contracting to you?

Mr Scales—In terms of contracting and in terms of letting us know what they have got and what their products are.

Senator LUNDY—You should swap notes with the government because companies are finding the same thing with the federal government.

Mr Scales—You might ask the minister about that. Let me tell you what we are trying to do about it. What we are trying to do—and we are recruiting internally for a group of people—is establish a group so that you and others can send people to us and we can find the right mix and the right match inside the company, for the very reasons that you have suggested. We know that there are smart people in Australia who have great ideas and we should be trying to harvest those. We should be trying to create relationships with those great people in a way which enhances both Telstra's capability and reputation and their ability to do well in the Australian environment. So we are establishing that. My guess is that by around about the middle of June we will be able to be more public about that. We will be able to give people web sites that they can use, we will be up to give people contacts and we will have a process in place to do exactly that—partly for the reason that you have alluded to.

Senator LUNDY—Are you able to quantify the percentage of IT products and services that you purchase from local industry or Australian companies?

Mr Scales—The largest proportion of the purchases that we currently make from those companies are the ones we mentioned earlier—EDS, Deloitte Consulting and IBM GSA. They are primarily from Australian sources. I will take that question on notice. The only variation around that is that you are never absolutely sure about what element of hardware is in that and what we have purchased from outside of that. So I just need to be slightly cautious about it.

Senator LUNDY—The federal government, in fact Minister Alston's own department, has done a significant body of work on trying to establish those definitions.

Mr Scales—As you know, it is a tricky issue to try and get the right granularity of detail.

Senator LUNDY—Just for the record, is Telstra under any obligation to meet local industry development outcomes?

Mr Scales—Yes.

Senator LUNDY—What are they?

Mr Scales—Our current licence condition requires us to meet—

Senator LUNDY—To report on industry development.

Mr Scales—Yes, to report on industry development.

Senator LUNDY—What are the specific obligations under that, besides having to report?

Mr Scales—It is to report.

Senator LUNDY—But it does not mandate a minimum percentage of local industry.

Mr Stanhope—No, it does not mandate a minimum percentage of local content.

Senator LUNDY—Does Telstra feel it has an obligation to make a contribution to local industry development in the ICT area?

Mr Scales—Yes, certainly we do—and we do.

Senator LUNDY—The newspaper reports also say that you are trying to cut costs by 50 per cent. Can you confirm that and also confirm that you expect to downsize Telstra's IT staff as a result of that by hundreds and hundreds of people? Do you have a target figure that you are pursuing as far as staff cuts go?

Mr Scales—Let me try to address the first part of your question, and I might ask Mr Stanhope to cover the second part of it. We have said to those companies that we are asking to provide a proposal to us on what would be described as our ADMS project that over a period of time—and we have given them a period of around three years—we believe that it is possible to get around a 50 per cent reduction in total cost. That means not necessarily 'price' but the total cost to Telstra of our applications and maintenance services spend. So, generally, that figure is about right. That is a target we have put to these companies. We have said that to them right up front, because we believe that, as we have said a number of times, we are in a highly competitive market and we have no choice but to move to be as competitive as we can be in this area.

Senator LUNDY—Mr Stanhope, what are the implications for staff?

Mr Stanhope—There is no headcount target associated with that 50 per cent expenditure reduction. Let me be clear as to why I am explicitly using the word ‘expenditure’. The \$1.5 billion is both capital expenditure and expense. So the applications development is capitalised, the maintenance is expense. We are looking for a 50 per cent reduction over a three-year period in both areas. We think some of it will come because we are not—

Senator LUNDY—In each area or across both?

Mr Stanhope—Across the board. We think it can come from selecting strategic platforms, for example. Right now Telstra has got a lot of various platforms, different types of software, a whole lot of business intelligence tools and so on, and by just selecting strategic platforms—one ERP system, for example, instead of several—you save on maintenance costs, because you have fewer platforms to fix up.

Senator LUNDY—And licensing fees.

Mr Stanhope—Exactly. So we expect the cost reductions, the expenditure reductions, to come across various areas, not just labour.

Senator LUNDY—Can you confirm that that figure is correct—2,400 IT staff currently on the books with Telstra? That, I presume, does not include staff engaged through your vendors.

Mr Scales—I think that would include some contractors which we have working for us from time to time.

Senator LUNDY—Can you take it on notice to provide accurate figures of both direct employees and employees engaged via contracts?

Mr Stanhope—Yes.

Senator LUNDY—I know the IBM GSA model involves the extensive use of subcontractors. Are you able to tell me whether there is anyone in that subcontracting chain that you are aware of that is currently located overseas, particularly in India, given that that is the country at the centre of this discussion, and whether or not you monitor that and have an ongoing understanding of the circumstances that your subcontracted companies engage in?

Mr Scales—Is it your preference that we do not source out of India?

Senator LUNDY—The question for me is sourcing from overseas, because of the loss of opportunity for Australians to gain employment in the ICT sector here in Australia.

Mr Scales—Because the questioning was so much about India, I was just wondering about—

Senator LUNDY—The focus is really drawn out by the media reports of Telstra having identified India as a potential place for it and also India being, for all intents and purposes, seemingly the location of choice for many of the multinational vendors at this time.

Mr Scales—Okay.

Senator LUNDY—Are you able to tell me now whether you are aware of any of Telstra’s—

Mr Scales—No, but we will take that on notice. As you would imagine, with so many IT suppliers it may not even be an easy answer to get. But we will do our best to try to get that answer for you on notice.

Senator LUNDY—Can Telstra confirm also the media reports that it is currently renegotiating with all its IT suppliers? Those discussions have started, haven't they?

Mr Scales—We have asked them to do what we have described as an RFP, a request for a proposal, and that has certainly been quite public. David Moffat, our chief financial officer, who is in charge of our broad IT responsibility has in fact given a press conference and made that public.

Senator LUNDY—In issues like the security of the information systems within Telstra, what processes and procedures do you have to ensure that Telstra systems are fully protected, that they are not breached and are managed in accordance with the current requirements of Australian privacy laws and Australian standards in relation to security of data and data protection?

Mr Scales—As you would imagine, we have very detailed requirements around to do with security, the security of information, people's privacy and all of the issues associated with those. Again, I can ask Mr Stanhope to go into some detail about that if you wish. These contractors we will be dealing with are aware of that. It is an important part of our assuring ourselves that they are capable of being long-term partners with us. The issue here is not specific to any one particular company, because even the companies we have spoken about already are companies that operate in many international markets. So this is not something we do not have to deal with every day of the week, and we are generally comfortable we have got those systems in place.

Senator LUNDY—I will come back to the security issues in a moment. Turning to companies like IBM GSA and EDS, are you aware of whether those countries either host Telstra information or process Telstra information offshore—for example, on the West Coast of the US?

Mr Scales—I am sorry, I am not sure I understood the question. You said that information that should have been kept within Australia somehow being—

Senator LUNDY—Possibly, I do not know. I am asking you that question.

Mr Scales—I do not know of anything.

Senator LUNDY—Is it a policy of the company to ensure that either databases are not held or the information processing is not done overseas?

Mr Scales—No. It very much depends on what the issue is and the extent to which it falls into the category that you mentioned earlier. That is, if it requires high levels of security and that security demands that we have it within a location that we know is secure within Australia, we will construct a policy around that. I am just not sure that I can generalise that.

Senator LUNDY—That would mean you would have a policy that says that, if it is of mission critical nature or has a high security requirement or is sensitive in privacy terms, it should stay in Australia. Do you have such a policy?

Mr Stanhope—In the RFP we have been quite specific about privacy and security. In the RFP we ask that if a proposed location is outside Australia how the following areas will be addressed. This is what we ask the potential contractors. We ask them whether there are cultural differences in approaches to privacy between proposed locations and what processes are in place to safeguard Telstra's intellectual property and data privacy. We ask what is the legal framework that recognises and protects the privacy of individuals and data at the location, and we ask whether these laws are compatible with those in Australia. Clause 31 in the RFP is in relation to privacy and security, and that is the section in the contract covering Telstra's security obligations. So we have been quite specific.

Senator LUNDY—But the mechanism used to enforce Australian law, if it were to go offshore, is a contractual mechanism?

Mr Stanhope—Yes, it is.

Senator LUNDY—So you accept, if information was being processed in another jurisdiction, for example, that Australian law would not apply; only the provisions of the contract would make it possible?

Mr Stanhope—It would be contractual enforcement, and that is why we have been so specific in the contract.

Mr Scales—However, if that were a risk—

Senator LUNDY—Of course it is a risk!

Mr Scales—No, but that is not the point I am making. What we do in the circumstances is to have a risk assessment. We have a whole risk assessment team that are always asking themselves these sorts of questions: is there a risk that in this circumstance that would create a concern for the company? If the risk were high, then it would be located domestically. That is the point: we would make an assessment of those things. The situation that Mr Stanhope was referring to is, to some extent, after those sorts of risk assessments about the necessity of location have been done.

Senator LUNDY—Let us go through that risk assessment process, Mr Stanhope. You have cited privacy, for which there is federal legislation; it does impact on Telstra.

Mr Stanhope—Within the term 'privacy' we embrace privacy law, the Privacy Act, the Telecommunications Act, any other legislation, industry codes and all those sorts of things.

Senator LUNDY—And security? It is less clear in terms of legislation, isn't it?

Mr Stanhope—Yes. I do not have the details of the clause, but I see no problem at all in giving you clause 31 of the RFP so that you understand completely what we are talking about. I just do not have that with me today.

Senator LUNDY—Security is certainly a hot issue at the moment. Obviously there are issues such as the protection of data and critical infrastructure protection. Can you provide the committee with clause 31 of the RFP, which details your security specifications, and also any clause that relates to critical infrastructure protection? In particular I am interested in critical incident responses. If there were an emergency in another country—and the scenario is a very serious one—that affected work being done by Telstra, on a database for example, what is the recovery time for that circumstance? The other issue I would like you to follow up on is

Telstra's assessment of critical infrastructure protection requirements, privacy requirements and security requirements—particularly in India, since it is the subject of our discussion, but also in other jurisdictions such as the US, Europe or any other place where Telstra may be contemplating sending work or outsourcing work offshore.

Mr Stanhope—Certainly. I will take that on notice.

Senator LUNDY—I will look forward to getting that really quickly so that I know that you already had it done, rather than just running away to do it now. We get pretty frustrated when the committee has to wait six months for answers to questions on notice. Mr Scales, you are obviously very conscious of security, particularly of systems which are mission critical. In that risk assessment process, how much is Telstra prepared to trade off, as far as cost savings go, with issues like security? You said yourself that it is a contractual obligation that is being bound. It is Telstra against a multinational. It might make a mistake.

Mr Scales—The issues here are about applications development and maintenance, which are unlikely to be in the area where you seem to be suggesting there would be questions about high-level security. This is software development. There will be primarily software development often around many of our products.

Senator LUNDY—But you cannot tell me that these companies do not manage databases in providing their services. Whilst it might be applications development now, it is entirely feasible and within their current capability to host whole databases offshore and manage them from there.

Mr Scales—That is a separate issue.

Senator LUNDY—No. It is actually part of my point in asking what steps you are putting in place and what value you give to issues like security and privacy when you are outsourcing offshore.

Mr Scales—No. I think your point was do we trade off security for price, and the answer is no.

Senator LUNDY—I have asked you to demonstrate that, so I will look forward to a prompt response of your policy activities. Is identity fraud a big issue within Telstra?

Mr Scales—Fraud of all sorts is a big issue for Telstra. Identity fraud is also a big issue for Telstra.

Senator LUNDY—How many cases per year do you get of identity fraud in Telstra's customer base?

Mr Scales—I cannot answer that here, but I will take that on notice, unless Mr Stanhope knows the answer.

Mr Stanhope—No.

Mr Scales—We will take it on notice.

Senator LUNDY—How many attacks on, or attempts to hack into, Telstra's computing systems do you experience every year?

Mr Scales—We get many. I am sure you realise that you are moving into very sensitive territory here, particularly in public and particularly on a telecommunications network.

Senator LUNDY—I am not asking for any details. I presume you are like every other company that has a system in place for managing this.

Mr Scales—We have a very elaborate system in place. If you felt that you wanted to be assured of this—and the government is always asking us this same question—we could give you a briefing on that. But the answer is many, and we have an elaborate process for ensuring that they simply do not get inside our system.

Senator LUNDY—Does Telstra have a policy or a public statement in relation to its approach to security and data protection—that is, protecting itself from external threats?

Mr Scales—We have a range of internal policies that go right to the board, because this goes to the heart of the risk of any telecommunications company, particularly one today that is involved in so much data. So the board requires constant surveillance by the leadership of the company around this issue. Our risk management team is focusing on this regularly, it is reporting to the board; so we have a number of policies. Whether we have a published policy, I cannot answer that for you, but I will take that on notice.

Mr Stanhope—We do have a corporate IT security baseline. It is the baseline which establishes our security criteria on IT systems.

Senator LUNDY—Do you adhere to Australian standards and so forth?

Mr Stanhope—Yes. I have just noticed here that there is a web site. It has a fairly long address. Perhaps I can give that to you afterwards, unless you want it on the record.

Senator LUNDY—Yes, just provide it to the committee as soon as possible.

Mr Stanhope—Sure.

Senator LUNDY—There is no mandated standard or legislation determining the level of security that needs to be applied to information infrastructure. Perhaps you could also provide the standards and the appropriate codes of practice that Telstra adhere to and require their contractors to adhere to. The next question I have relates to the protection of critical infrastructure. National information infrastructure is certainly critical infrastructure not just for Telstra and their business case but for the whole of the nation. I know that Senator Alston would be very attuned to this issue at the moment as NOIE, which is under his jurisdiction, is actually managing an e-security forum on behalf of the federal government. What is Telstra's involvement in the broader forums of critical infrastructure protection and what level of engagement do you currently have with stakeholders for ensuring that the national information infrastructure, part of which you have full and total responsibility for, is safe?

Mr Scales—We have involvement in every one of those forums. We have people dedicated to maintaining relationships with all of the security parts of the Australian community, whether they are at a Commonwealth level or even at a state or territory level. We have a process of reporting to the leadership team and to the board on that issue.

Senator LUNDY—How often do you report?

Mr Scales—Regularly.

Senator LUNDY—Every time they meet?

Mr Scales—No, not every time the board meets, and not each time that those particular security groups meet either. But they are regularly programmed for reporting. If there is a particular event or incident, the reporting escalates and the process of internal reporting then escalates. So, for example, even in issues around Bali bombing or around international terrorist alerts, there is an escalation of reporting around all of those depending on the severity of the occurrence and the veracity of the information. But I can assure you that it is elaborate.

CHAIR—We will stop there.

Proceedings suspended from 11.01 a.m. to 11.15 a.m.

Senator MACKAY—I put a question on notice about how much is being spent on corporate entertainment. Telstra kindly provided me with the following figures: in 1994-95, it was \$14.5 million; in 1995-96, \$16.6 million; and in 1996-97, \$13.7 million. What is it projected to be in 2002-03?

Mr Scales—I do not have those numbers. My expectation is that it would be less than it was last year, but because it is a projection and the year is not over it is a bit difficult to give you a precise answer on that. As you can tell, it has declined quite considerably over that period.

Senator MACKAY—I did not complete what I was going to say. It then peaked in 1998-99, at \$17.1 million; in 1999-2000 it was \$15.8 million; in 2000-01, \$14.5 million; and in 2001-02, \$10.7 million. So you are saying that you think it is going to be approximately the same this financial year as last year?

Mr Scales—We expect it will be lower than last year. As you can see from these numbers—depending on when you take them from; I am not trying to take the peaks and troughs because that would distort it—the nominal reduction would be about 30 per cent over that period and the real reduction would be around 50 per cent.

Senator MACKAY—It is still a lot of money. Can you tell me broadly what is defined as corporate entertainment? What does it mean?

Mr Scales—You would notice that we tried to give you some of the details of that in the answer. It is primarily around providing entertainment when we are meeting with customers, particularly corporate customers. In absolute terms I can understand the point you are making—it seems quite large. In proportion to a \$22 billion company, it is relatively small in percentage terms. But it is an issue which we are always looking at, and we try to make sure that we get value for money.

Senator MACKAY—You say it is functions for customers.

Mr Scales—Primarily.

Senator MACKAY—You have indicated some, hosted by the CEO in particular, but you have not gone beyond that. Give me some examples.

Mr Scales—There would be examples like the one that you mentioned: we have a lunch for customers around Christmas time where we bring customers in, we give them a lunch and we thank them—

Senator MACKAY—How much would that Christmas lunch cost?

Mr Scales—It depends on how many people are there. We do them right around the country. We would do some in Hobart, for example, where the cost might be less than \$10,000. If you did it in a Sydney location, where you had a couple of hundred major customers, it could be in the \$20,000 to \$30,000 range.

Senator MACKAY—Let us take the round of lunches that occurred around Australia last Christmas. Broadly, what did that cost?

Mr Scales—I thought we had given you some of the details in our answer to the question on notice.

Senator MACKAY—You did, but I am trying to get a picture of what is happening here. What would it have been for, say, the round of lunches or whatever that occurred last Christmas?

Mr Scales—The cost of the function in Canberra, for example, was around \$6,000. So it is that sort of cost.

Senator MACKAY—This is the Ottoman function?

Mr Scales—Yes.

Senator MACKAY—I reiterate: what would be the cost of the round of lunches or functions that occurred around Christmas last year, around Australia, as a ballpark figure?

Mr Scales—Because we do each state and territory, on average it would be about that sort of figure. You could be talking about \$70,000 to maybe a maximum of \$100,000 for that round of lunches to thank customers.

Senator MACKAY—For the pre-Christmas lunches?

Mr Scales—To thank customers, yes.

Senator MACKAY—Does this figure of \$10.7 million for 2001-02—trending down, you say—include sponsorship?

Mr Scales—No. Sponsorship is quite a separate issue. You may remember that this was an issue at the last Senate estimates. We talked about the sponsorship question.

Senator MACKAY—Yes. Can you tell me how much sponsorship is costing these days?

Mr Scales—Mr Stanhope may have to help me out here, but the rough amount of sponsorship in total—and some of those sponsorships are things like Lifeline and even the Australian Ballet, as well as more high-profile ones like sponsoring arenas like what was the Olympic stadium—would be around \$20 million to \$30 million.

Senator MACKAY—Just taking Telstra Dome, as it is now called, and Telstra Stadium, in Melbourne and Sydney respectively, what are they worth? How much does the company pay for those?

Mr Scales—The actual figures we would prefer not to disclose. Let me tell you the reason for that. Sponsorship is a very competitive issue and many even not-for-profit companies and organisations get a lot of their revenue out of sponsorships. There is a market for sponsorships and, if we start disclosing what those are, that undermines many organisations' ability to be able to obtain the best value they can out of whatever property it is. I noticed yesterday you

were talking to the SBS about what is effectively a sponsorship arrangement in Federation Square where there was a price put on signage. On the other hand, when we are trying to negotiate the very best deal, if we start disclosing what some of these things are worth, it undermines our ability to be able to negotiate effectively. They are not figures that I would—

Senator MACKAY—I asked you about two very specific ones and they were Telstra Dome in Melbourne and Telstra Stadium in Sydney. How much are they costing Telstra?

Mr Scales—I do not have the exact amount in my head on those ones.

Senator MACKAY—But you must have some idea.

Mr Scales—As I said, this is getting very close to being commercial-in-confidence information.

Senator MACKAY—It is not commercial-in-confidence.

Mr Scales—I understand that in the technical sense of the Senate it is not commercial-in-confidence.

Senator MACKAY—You have to give me the information.

Mr Scales—I understand that I have to give you the information.

CHAIR—It is very commercially sensitive, I understand that.

Mr Scales—It is very commercially sensitive.

Senator MACKAY—But it is not commercial-in-confidence, Chair, as you know. You have to give me the information, Mr Scales, I am sorry.

CHAIR—We can find another mechanism for it to be done.

Senator MACKAY—No. This is outside the standing orders. You have to give me the information, Mr Scales. Give me a ballpark figure for Telstra Dome and Telstra Stadium.

Mr Scales—If the chair is saying that I must provide you with it, then I will take that information on notice and provide it to you on notice.

Senator MACKAY—So you have no idea—ballpark—how much Telstra Dome and Telstra Stadium are costing Telstra?

Mr Scales—I want to take that question on notice.

CHAIR—There is a precedent for taking it on notice and providing the information to the committee.

Senator MACKAY—There is a precedent if you do not want to disclose the information. Sometimes we get the answers during the next round of estimates, which you and I have discussed, Chair. That is fine. If you do not want to be honest with the people of Australia and tell them how much Telstra is paying for Telstra Dome and Telstra Stadium, on your own head be it.

Mr Scales—That is not what I have said and you know that.

Senator MACKAY—You cannot come in here and talk about commercial-in-confidence when it does not apply.

Mr Scales—I have tried to explain why it may be not in the interests of some, for example, not-for-profit organisations to have what is the market price—

Senator MACKAY—I talked about two specific examples. I understand the general point. I am just after two specific examples.

Mr Scales—And as I was going to go on and say, I have tried to explain why it might be not in the interests of organisations like that to have these sorts of things fully disclosed. I accept the point that the chair is making. I will take that on notice and we will provide you with that information.

Senator MACKAY—You also accept the point surely that the public, as the majority shareholder, has a right to know what Telstra spends its money on.

Mr Scales—I accept that fact—or else we would not be here at Senate estimates. We are here and, as you would have heard over the last almost eight hours, we have been doing our very best to answer your questions honestly and openly. We have given you lots and lots of information, so I think it is very difficult to draw the conclusion that Telstra has been anything else except completely forthright.

Senator MACKAY—I am surprised that we have hit a brick wall on this issue.

Mr Scales—As we have in a sense just discussed, you are aware of why it is that I am sensitive about this particular issue.

Senator MACKAY—I do not accept that. Anyway, if you want to take it on notice, that is fine. People will make their own judgments about that. Do those sponsorship packages that we cannot get a figure on include any special concessions for corporate boxes?

Mr Scales—Yes, they do.

Senator MACKAY—Can you take that on notice?

Mr Scales—Yes, I will.

Senator MACKAY—Has Telstra paid for any overseas entertainment for any ministers?

Mr Scales—Not to my knowledge. The only reason I am slightly reticent in answering that completely by saying no is that we are sponsors, for example, of the Australian Ballet. What I do not know is, for example, on the number of occasions when the Australian Ballet is at a location around the world, whether we have provided entertainment to a minister on those occasions. I would have to take that question on notice. To my knowledge, the answer is no, but I will have to take that on notice.

Senator MACKAY—Has Telstra provided any assistance for entertainment/travel for the minister?

Mr Scales—For Senator Alston?

Senator MACKAY—Yes.

Mr Scales—I have no knowledge of that.

Senator MACKAY—What about Mr Stanhope?

Mr Stanhope—No, I am not too sure about Senator Alston. In answer to your question on notice where you asked how many functions had been attended by members of parliament as

guests, we responded that one of these events included a member of parliament as a guest. That was one of the CEO's functions.

Senator MACKAY—What I am getting at here is not simply functions. Has Telstra provided any financial assistance for the minister with respect to travel, entertainment et cetera?

Mr Stanhope—Not to my knowledge.

Senator MACKAY—So you will take that on notice and check it?

Mr Stanhope—Yes, I will check that.

Senator MACKAY—And also could you check for any other ministers and the Prime Minister?

Mr Stanhope—Okay.

Senator MACKAY—When you take that question on notice we want details, names of events, nature of expense, cost et cetera. Has Telstra organised corporate boxes for the Rugby Union World Cup matches being played in Australia in October and November this year?

Mr Scales—Yes, we have a number of boxes for the world cup.

Senator MACKAY—How many?

Mr Scales—I do not know the exact number.

Senator MACKAY—Is it 100 or two?

Mr Scales—No, it is nothing like that. It is two or three. To answer as fully as I can, we have two or maybe three—I will check that for you—at Telstra Stadium and I think roughly the same number at Telstra Dome.

Senator MACKAY—What is the estimated cost of those?

Mr Scales—I will take that on notice.

Senator MACKAY—With the \$11-odd million from last year I would like as detailed a breakdown as possible of what that constituted and also the figures for this year. Could you take that on notice?

Mr Scales—Yes.

Senator MACKAY—I will put it in writing so it is explicit. Last week we had a Senate inquiry hearing where there was some dispute about figures for capex and staffing. That was clarified yesterday—thank you for that. One market analyst has said:

Telstra is now at industry best practice—15 per cent labour costs to sales—so you could argue the easy [labour cost] gains have already been made ...

That is a quote from an article by Katrina Nicholas in the *Australian Financial Review*. What is your comment about that? Do you want me to repeat the quote?

Mr Scales—No, I understand the question. I do not think that is the way companies should look at better practice, because—and I am sure, Senator, you would be aware of this because there has been a lot written about this question of what better practice means—to some extent companies are led into a false sense of security by thinking they are at or near best practice,

only to find that their competitors roll over the top of them because they have not been at all concerned about what better practice is at any particular time and have leapfrogged them in the efficiency stakes. From our perspective, we do not regard ourselves necessarily as being at best practice and we are always looking for ways in which we can improve our general efficiency, including our labour efficiency.

Senator MACKAY—So Telstra would not accept that that 15 per cent labour costs to sales was industry best practice?

Mr Scales—No. I think that on the factual information we would certainly be regarded as being in the 75th percentile of better practice around the world—but that is not my point. My point is that companies are deluded if they think that protects them from competition. We are in such a vicious competitive environment in Australia that we cannot afford to be deluded by that concept that somehow you have achieved best or better practice.

Senator MACKAY—I understand that. I think the point that this analyst was attempting to make was about labour costs—further downsizing of labour costs.

Mr Scales—I understand the point. I read the article and I understand the point that was being made.

Senator MACKAY—But you do not agree with it?

Mr Scales—I do not agree with the concept that there is a fixed point beyond which people can delude themselves about whether that is an appropriate level.

Senator MACKAY—In the same article, which you are familiar with, there was also a comment from another analyst:

You can generate short-term gains by slashing capital expenditure or costs, so long as you're not doing it to the detriment of the business ...

It then went on to say:

Others were concerned that extensive capital expenditure cuts could result in under-investment in Telstra's copper access network—

which would cause problems, such as potential growth problems et cetera, in the future. This is from analysts in the area. What is your response to those comments?

Mr Scales—That is generally true of all investment, whether you are talking about investment in education or investment in telecommunications. For example, if you do not continue to invest in good teachers, you will undermine the education system.

Senator MACKAY—That is right.

Mr Scales—We are conscious of that very issue with our own network, and that is why we try to do two things at once: we try to monitor the general performance of the network and make sure that it is heading in the direction that we believe is appropriate—and we reckon it is—while at the same time asking ourselves how efficiently we can do that by changing our technology or the way in which we do things. So I agree—and we agree—with that general statement.

Senator MACKAY—That general statement asserts that, if you cut staff to the point where it is deleterious to the network, there will be problems down the track. I believe, and I think

generally most people in the parliament now believe, that that is happening. Yesterday we had confirmation from Telstra that we are looking at 3,000 further job cuts. Approximately half would be jobs of workers involved in maintenance or general network issues. Are you seriously suggesting that downsizing further is going to have no impact on the state of the network?

Mr Scales—The point that has been made a number of times over the last day or so and that was made even last week is that we do not have any specific numbers for the headcount. What we have been saying quite consistently is that we look at each of these cases on its merits, we try to see how we can be as efficient as possible, and we are improving both our total productivity and our labour productivity on a continuous basis—and we will certainly continue to do so. That is a responsibility we have; otherwise, we will not be able to provide the people of Australia with high-quality communications at the cheapest possible price.

Senator MACKAY—We went through that yesterday. You have confirmed 3,000, so let's just not go there again. Is Pracom a company that currently supplies any contractors to Telstra for installs in any area?

Mr Scales—Pracom—I might need to take some advice from Mr Rix on this—are a construction company, if I remember correctly. I think they did a small amount of contracting work in WA at some stage, but maybe Mr Rix might want to comment on that.

Mr Rix—Pracom are part of our contracting group.

Senator MACKAY—What does the company do?

Mr Rix—I could take that on notice and check out fully what they do.

Senator MACKAY—No, I do not want you to take it on notice. What do they do—construction, maintenance?

Mr Rix—They have done a number of things in the past. I know they were involved in part of the pay TV and broadband roll-out in the past—I definitely know that. They have also been involved recently in supplying us with eight people in WA. Beyond that I am not aware, but I could take that on notice.

Senator MACKAY—If you have got anything further to add, please do take it on notice, but that is sufficient for the purposes of this exercise. How long have they been doing work for Telstra in Perth. You are saying that they have got eight people—how long have those people been there?

Mr Rix—During March and April—I do not have an exact date—the Pracom people were called in to assist Perth after severe electrical storms and over 1,000 lightning strikes affected the telecommunications network during that period. I do not have with me the exact date that the Pracom people started. As far as I am aware, they are not there at the moment. Perth is certainly not in that current situation.

Senator MACKAY—So we can establish that they were there over March-April?

Mr Rix—That is correct.

Senator MACKAY—Is Citadel Securix a company that currently does any contracting or subcontracting work for Telstra?

Mr Rix—I am not aware of that name.

Senator MACKAY—In Perth?

Mr Rix—I am not aware—I could take that on notice.

Senator MACKAY—Could you consult with your colleagues to see if anyone else knows.

Mr Rix—I will have to take that on notice. I do not think anybody here knows.

Mr Scales—We will need to take that on notice, Senator. We use a large number of contractors and suppliers.

Senator MACKAY—Perhaps we could cut to the chase here: is anybody at the table aware of a particular Telstra employee that may have been stood aside this morning?

Mr Scales—Stood aside this morning? No, we are certainly not aware of that.

Senator MACKAY—Let us continue then. Isn't it correct that Pracom contractors have recently been working on fault repairs in Perth following the lightning storms on 28-29 March? You covered that one, Mr Rix, by saying March-April. Can you provide the committee with a copy of the tender documents or records that show a proper tender process was followed for the allocation of this work to Pracom? Was there a tender process?

Mr Rix—No, I would suggest that there would not have been a tender process. Our corporate sourcing group manage contracts on behalf of Telstra. With regard to that we have our ACC contracts, and that is the group which manages those across the organisation. I would need to go to them to look at the arrangement Telstra has with that particular company.

Senator MACKAY—Who would make the final decision in Western Australia in respect of this? Where does the buck stop?

Mr Rix—I will just confer with Mr Stanhope. Corporate sourcing would make the decision on who the contractor is, the appropriate price et cetera.

Mr Scales—That is in a general sense. That then allows us to work with those contractors in a specific sense.

Senator MACKAY—Got it; that is fine. Does Telstra know whether any of these eight Pracom employees were flown into Perth from any other capital cities?

Mr Rix—Yes, they were.

Senator MACKAY—Where were they flown from?

Mr Rix—They were flown from Melbourne and from Adelaide.

Senator MACKAY—Who paid the cost of their travel expenses and travel allowance? Was it Telstra or Pracom?

Mr Rix—I am not privy to that information. I think that would have to be part of what I have to take on notice.

Senator MACKAY—What would the normal practice be if you were flying contractors in from one capital city to another capital city? Who would pay? Would it be Telstra or the contractors, or does it vary?

Mr Rix—I would suggest that, from a contracts perspective, that is a cost that would either be built into the contract itself or be a cost that they may pay up-front and ask for some reimbursement. Specifically, I would not be aware of the details of each contract, but it is something that I can take on notice for that specific incident.

Senator MACKAY—What is the name of the Telstra General Manager, Metro Service Infrastructure Services, South-West Region, Western Australia?

Mr Rix—The general manager's name is Tessa Jakszewicz, and certainly I would apologise to Tessa if I have incorrectly pronounced her surname.

Senator MACKAY—Yes. I just wanted to hear how it was pronounced, to be honest. How long has Tessa Jakszewicz been employed by Telstra in that role?

Mr Rix—I could not give the exact time, but I would suggest that it would be about 12 months.

Senator MACKAY—My information is that it is six to eight months. Would that be right?

Mr Rix—It could be right.

Senator MACKAY—Is it correct that she was a former manager with Pracom?

Mr Rix—Tessa worked for Pracom from early 1996 until mid-1998 in a managerial capacity. I am not aware of that, but I do know that she was involved in the set-up in the telecommunications industry in areas of the pay TV rollout and the establishment of contracts. I think it was initially with Optus Vision but in what capacity and what seniority we are not aware. As part of our due diligence on employment we certainly saw having a manager as part of the industry being able to come in and work for Telstra as a plus.

Senator MACKAY—Prior to her coming on board with Telstra in Western Australia, were Pracom used at all?

Mr Rix—I would have to take that on notice.

Senator MACKAY—I would suggest they were.

Mr Rix—I cannot answer that, I am sorry. I do not know.

Senator MACKAY—I have an article from a newsletter put out by Citadel Securix in November 2001 which describes the appointment of Tessa Jakszewicz to Citadel and notes her former employment as Executive General Manager of Pracom Pty Ltd. Were you aware of that?

Mr Rix—No.

Senator MACKAY—I also have a letter here from Ms Jakszewicz—I am butchering her surname terribly here—to the CEPU branch secretary in Perth, Mr Paul Kelly, who also gave interesting evidence at the ATN inquiry in Bunbury on 9 May. In this letter Ms Jakszewicz tells Mr Kelly that 40 jobs per day have been given to Pracom. Are you aware of that?

Mr Rix—Yes, I am.

Senator MACKAY—You are aware of the letter.

Mr Rix—I am.

Senator MACKAY—Our information is that about 15 people were flown in from other states.

Mr Rix—I would restate that the number was eight.

Senator MACKAY—Are you absolutely sure about that? Are you as sure as you can be?

Mr Rix—As sure as I can be. It might be nine, but I am pretty sure it was eight. That was the number I was given.

Senator MACKAY—What are the internal processes in Telstra that would ensure that any conflict of interest between her previous role with Pracom and her current role allocating Telstra field resource contracts is not a problem in terms of any potential favouring of Pracom?

Mr Rix—I will certainly look to Mr Stanhope to assist as well with regard to the due diligence that we apply to each of the contracts. To my knowledge, line management do not make final decisions, and that is why we have set up a corporate sourcing group. With regard to contracting, you need to be part of the overall contracting group which Telstra uses; you need to go through that sourcing group—that is the due diligence process that we use within the organisation.

Senator MACKAY—But she is on it, isn't she? She is the Telstra General Manager, Metro Service Infrastructure Services, in the South-West Region, isn't she?

Mr Rix—Let me clarify that: there is a separate group that I am talking about as being corporate sourcing. Maybe Mr Stanhope can explain the role of the corporate sourcing group.

Mr Stanhope—She would not be part of the decision to choose the contractor.

Senator MACKAY—She wouldn't be?

Mr Stanhope—No. Once a sourcing contract is established, whoever it might be with—we were talking about Visionstream before, for example—the local managers will draw down those resources as required. Once the contract and the rules around that contract—the pricing, the terms and conditions of the contract—are established then obviously the line managers need to draw down against those contracts and use the resources.

Senator MACKAY—She would be aware of it, surely. You are not trying to tell me this was a coincidence, are you, Mr Stanhope?

Mr Stanhope—I would not know whether she would be aware that we were discussing—

Senator MACKAY—She was previously working with Pracom, she comes to work with Telstra and all of a sudden Pracom is getting work in West Australia and flying people from Adelaide and Melbourne.

Mr Stanhope—We actually need to establish whether Pracom was a contractor prior to her coming to Telstra. We need to make sure of those facts.

Mr Scales—The general point is that there are strong probity issues inside the company. If the suggestion is that we have not followed those probity issues then that is quite a serious allegation—

Senator MACKAY—Yes, it is.

Mr Scales—particularly against somebody who we think is doing a pretty good job.

Senator MACKAY—That is right; I am raising the questions.

Mr Scales—It is a serious question.

Senator MACKAY—So Telstra do not know whether Citadel Securix is doing any work in West Australia? Do you definitely not know?

Mr Scales—No, we said we would take that on notice.

Senator MACKAY—So we have got Ms Jakszewicz previously working for Pracom and Citadel Securix. I am advised that, as well as the Pracom work, Citadel Securix has also been doing work in Western Australia. Are you satisfied that there are no improper business connections here, Mr Scales?

Mr Scales—We have not looked at this in detail. What I can say is that our internal systems are meant to ensure that there is no improper conduct in these sorts of circumstances. If I am hearing what you are saying correctly, it is some years since this particular employee has worked for that company, so it is not as though this employee has gone from one company straight across to Telstra and there is some sort of direct link here. As I understand from what Mr Rix has said, if there has been a process whereby this particular contractor has gone through our normal processes to ensure that they are appropriate to work for us then, on the face of that, it is hard to see there is any impropriety associated with it.

Senator MACKAY—Will you investigate this matter, Mr Scales?

Mr Scales—We certainly will; there is no question about that.

Senator MACKAY—Has Telstra made any investigations to date with respect to this situation? I appreciate that the people at the table may not know.

Mr Rix—No, we have not.

Senator MACKAY—Are you aware of any investigations that have occurred in Western Australia?

Mr Rix—I am not personally not aware of any.

Senator MACKAY—Does anybody else know? I understand there has been some movement on this recently.

Mr Scales—No, we will take it on notice.

Senator MACKAY—I would also like the investigation to include any member of her immediate family, and the contracting companies Pracom and Citadel Securix. Thank you.

Mr Scales—Just so that you are also aware of how seriously we take these questions—

Senator MACKAY—I am sure that you do.

Mr Scales—we are in the process of putting in place a fairly elaborate whistleblower process so that people can bring matters to the attention of the board—independently of their direct manager if they believe that is appropriate. So these are for us, in a very general sense, very important questions about probity, honesty and the ability to protect the company against any risk that might emerge there.

Senator MACKAY—That is interesting. With regard to this whistleblower process, how will members of parliament be able to access that?

Mr Scales—You will be able to access it via the web site. We are very close to being able to detail that.

Senator MACKAY—What information will be on the web site?

Mr Scales—It will be an internal web site so that our staff will know exactly how to access these arrangements. We will have a process of communicating these arrangements to all our staff. I am sure that the moment we publicise it it will be on your web site.

Senator MACKAY—Will we be able to access the internal web site?

Mr Scales—I am not sure that you will be able to do that. I am saying that our internal staff will be able to. That is what it is aimed at primarily.

Senator MACKAY—Can you see any reason why members of parliament would not be able to—those who are on this committee, for example?

Mr Scales—No, not at all. But I do not think that was the question you were asking me.

Senator MACKAY—I understand. You have an internal—

Mr Scales—It is aimed at our internal staff to give them some confidence that they are able to bring serious allegations against management to the attention of the board if necessary.

Senator MACKAY—What does Telstra say to an allegation made by the CEPU in their evidence to the Senate in Sydney last week that it looks like Telstra are trying to run down the in-house work force to such a state that the Telstra work force will no longer be self-sufficient or viable on its own but instead will effectively be dependent on outside contracting companies to operate, which effectively makes it private, in terms of its work force? What do you say to that allegation by the union?

Mr Scales—Certainly it is not our intention to do that. We have tried to have an appropriate work force to meet our customer needs. That will be made up of our own employees and contractor employees. The balance of that will change over time and it very much depends on what the circumstances are. Of course, this balance between our own work force and the contractor work force is not only applicable to our field staff; similarly, it applies to our call centre staff and IT staff, which we discussed earlier. The broad strategy of the company is to try and draw on the best resources—

Senator MACKAY—Would you concede that there is a bit of a trend emerging, with respect to the balance, in favour of the contracting side rather than the public sector side?

Mr Scales—The trend is about getting efficiency on both sides. If you go back to the questions that Senator Lundy was raising with us earlier, what we were talking about there was getting high levels of efficiency on the contractor side of our IT spend.

Senator MACKAY—You told us yesterday that you are going to get rid of 3,000 more staff. You got rid of 3,000 last year—that is, public sector staff. You cannot just go on and say that there is not a trend that is favouring outside contractors. That is a non sequitur.

Mr Scales—If I have understood your comment, you were suggesting that there was a push to achieve levels of efficiency inside the company, to the exclusion of achieving levels

of efficiency in our contractor arrangements. I was trying to comment that that is not the case. We are achieving and attempting to achieve high levels of efficiency in both levels of our labour work force—that is, on the contractor side and also our own employees.

Senator MACKAY—Can Telstra take on notice the question: on how many days in 2002-03 to date, in each region, has Telstra operated without the use of any external contractors in the customer field work force, excluding NNS and NDC?

Mr Scales—We can take that on notice.

Senator MACKAY—Telstra told the Senate in answer to a question on notice that:

Contractors are paid on the number of jobs they complete but, importantly, the payment per job varies depending on the complexity of the work, which in turn affects the time taken to perform the job.

How does Telstra go about setting a rate with a contracting company?

Mr Rix—Without knowing the intricacies of the corporate sourcing group and its arrangement of contracts: it is established through that group that there is a program of work that is established and each program of work will have an appropriate dollar level. Then there is, obviously, a negotiation with the contractor in a particular area. That is generally the way in which it is done. The particular program of work stretches across multiple parts of our business, from, as you have correctly read out, a simplex activity through to quite a complex activity. There are components of those activities, as well, so they may complete part of a job and then there would be other components through which they would complete the entire job; that would be a different level of money.

Senator MACKAY—Do you just accept the lowest price?

Mr Rix—No, not at all.

Senator MACKAY—Have you ever not accepted the lowest price?

Mr Rix—As I said, I am not in the contracting group. But no, that is certainly not the only thing—

Mr Stanhope—I am sure there would be instances where we have not accepted the lowest price, because they have not met quality conditions and so on.

Senator MACKAY—Would you take it on notice to say when you have not accepted the lowest price, and on what basis. Do you routinely reject the lowest price? The information we are getting, Mr Rix, as you would know, is that there is undercutting going on out there—it is a cutthroat market within contracting as well—and that, basically, as it goes down the line the quality of work is suffering.

Mr Rix—I think that if we only ever accepted the lowest price we would use a very small number of contractors. It varies from state to state. There are overall umbrella contracts that are in place in each of the states, and that gives management an opportunity to choose between them. That is not based just on the lowest price, but on a number of accreditations that are put in place as part of the contract arrangements. We would be happy to supply you with those types of, basically, accreditations or the stringent guidelines and due diligence that we put in place in making those decisions.

Senator MACKAY—So you have got a process of benchmarking that the contractors have to meet. If they meet that, I assume, you go for the lowest price.

Mr Rix—Again I am not privy to that. I am certainly not speaking from a position of being an expert in this field, but I think there would be other things that would come into it, such as the number of people that are available, the multiskilling issues and the potential they have. The last thing we want to do is just have someone who can do one particular activity, when we would like them to be a bit more flexible than that. The availability of those contractors would come into it, as would the occupational health and safety guidelines and the quality systems that they put in place. I think it would be tailored to specific areas of our business. As I said earlier today, we do a number of functions, ranging from quite a complex function to quite a simple one, over many parts of our business. All those decisions would be taken into consideration.

Senator MACKAY—For field activities in the metropolitan environment, has Telstra done any benchmarking on the number of faults a contractor fixes in any given time frame?

Mr Rix—We probably have, yes.

Senator MACKAY—Have any comparisons been drawn with the number fixed by a Telstra employee?

Mr Rix—I am not aware of that.

Senator MACKAY—You understand precisely where I am going here, don't you?

Mr Rix—Yes. That is fine, Senator. I am not privy to that benchmarking study, but overall I think we reserve the right to look at the most effective, efficient work force that we have got. We have demonstrated through our numbers that that is primarily a Telstra work force. I do not think we should walk away from the fact that we use contractors on the basis of filling gaps within our business, whether that is for skill or volumes or whatever it might be. I think that is appropriate, not only from an efficiency perspective but also to ascertain how our performance is going, making sure that the majority shareholder, certainly, and the rest of the shareholders of Australia, are getting enough bang for their buck within Telstra, with regard to how much it costs to perform an activity. It is important for Telstra to source that information. We need to know how good we are internally. If we continually measure ourselves against our internal work force only, that becomes inappropriate when looking at those types of measures.

Senator MACKAY—I understand. But if you are benchmarking, and you are, as I understand it—not you, personally, but Telstra is benchmarking contractors in terms of the number of faults fixed—how do you know that the quality is there in respect of the work that is done on fixing faults? It goes to the issue of plastic bags, rubber bands and all that sort of stuff.

Mr Rix—There are a number of things we do. We will supply you with the detail around the accreditation, but we also have a series of processes and I am happy to run through those.

Senator MACKAY—Not today. We do not have time

Mr Rix—Some of the things we do include auditing of the work that goes on. We set some targets around the inspections that we do. We have quality contract inspectors around Australia who are doing this work. We also work with contractors on a regular basis and do

reviews of work that has gone on with contractors. We ask the contractors to demonstrate that they have a quality system in place in which their team leaders and management check work. We also have reviews with contractors on a regular basis where we look at defects. Some of the systems that we have in place will clearly show if faults are recurring with a certain individual. That is both for the Telstra internal work force and for contractors. If, for example, faults are coming back in or recurring, it is important that we go back to those contractors and ascertain what the issues are. The policies we have in place are really quite stringent. Again, I am quite happy to supply you with the detail of quality controls that we have in place in managing contractors.

Senator MACKAY—Have Telstra team leaders been asked to rank staff by performance or productivity?

Mr Rix—I do not know that they have been asked to rank them. At all times we are certainly measuring our field staff. Our team leaders are actively involved in that process—measuring them against the quality of the work, the amount of work that they do each day, their utilisation and how often they are available, the tickets of work that they perform from complex down to simple work. There are a number of measures that our team leaders have in place across many facets of our business. We believe that they are important for us to get a gauge on performance generally. We measure installations, faults and all the activities that go on in the field work force. That is not dissimilar to the call centre business that we have. A series of measures were put in place there. Those measures range from occupational health and safety through to performance measures.

Senator MACKAY—So the answer is yes?

Mr Scales—Yes. We have a strong performance culture inside the company. Everybody is measured on performance and we will continue to do that for clear reasons about effectiveness.

Senator MACKAY—When was this instituted and which sections of Telstra have been asked to do this?

Mr Scales—All sections of Telstra are required to have their performance reviewed and measured. There is no part of Telstra that is excluded from that process.

Senator MACKAY—I have been advised today of a Telstra employee in Perth who has worked for Telstra for 27 years. He has been told to lift his work rate to five jobs per day and has had a nervous breakdown. My information is that this sort of thing is going to become more common with this level of benchmarking and pressure on workers. Do you have any comment with respect to that?

Mr Scales—I cannot comment on the specific example you have given except to reiterate the point I have just made that the performance of all the people within Telstra is constantly under review.

Senator MACKAY—Mr Scales, you must be aware of the kind of pressure this is putting on the Telstra work force, people in Telstra—this continual hammering and continual upping of benchmarks, this continual comparison with contractors in the private sector which means that they are not able to do their jobs to their satisfaction. People who have worked in Telstra for 20 years are concerned about the state of the network. They are concerned that they do not

have time to fix faults properly now; hence, the plastic bags issue. Surely you must be aware of these things. Are you concerned about them?

Mr Scales—We are concerned with both our own employees and the state of the network. We have in place a whole range of measures to help people to understand how they can improve their own productivity performance. We have our own people involved in various continuous improvement programs where they are contributing to the extent to which performance is lifted. We are conscious that we are being required to do more and more as an organisation. It is true that all of us inside the company are to some extent under stress to do that. So, yes, we are aware of that.

Mr Rix—We also conduct our own employee opinion surveys, which are anonymous. We run those on a 12-monthly basis. So we are receiving feedback from our staff all the time. That is an important approach that we take. We take the feedback from our staff very seriously. That is at a company level. Then when you break that down into business units you find there are other surveys that are being run with our staff. There are opportunities for these staff to be able to in their monthly meetings with their managers vent on some of the issues that they see as important for the company. The majority of our staff are extremely concerned with regard to the overall direction of Telstra. They constantly give us feedback. Their concerns are taken on board. But the majority of our staff think it is an absolutely fantastic place to work. I do not mind having that on the public record, because we continually get that sort of feedback from our people.

Senator MACKAY—In respect of that, Mr Rix, the CEPU gave evidence last Monday in Sydney that two employees had worked 37 and 40 days straight, respectively. Do you think that is acceptable from an occupational health and safety perspective?

Mr Rix—Could I have some more detail on that, please?

Senator MACKAY—It is in the *Hansard* which I asked Telstra to read and be ready to respond to here today. It is evidence from the CEPU.

Mr Rix—Was this the one in Brisbane? Is that correct?

Senator MACKAY—Yes.

Mr Rix—We have done some research on this. In Brisbane, over that period of time that it seemed the CEPU—

Senator MACKAY—Sorry, the hearing was in Sydney; the workers were in Brisbane.

Mr Rix—The workers were in Brisbane?

Senator MACKAY—That is right.

Mr Rix—There were a couple of staff that worked 43 out of 49 days, so effectively that means that they were working six days out of seven in a week. But none of those were consecutive. It is an important point that Telstra takes very seriously with its staff—their own health and all occupational health and safety issues with regard to work in these times.

Senator MACKAY—You told Senator Conroy earlier that it was up to the employee whether they worked overtime or not.

Mr Rix—No, I said it was on a voluntary basis.

Senator MACKAY—That is right.

Mr Rix—That is right.

Senator MACKAY—Are you concerned that people are working 37 days straight?

Mr Scales—I think Mr Rix is trying to ask you whether you are suggesting that this is not voluntary.

Senator MACKAY—Mr Scales, I put this to you: what if the Telstra people who worked the overtime turned around and said to Telstra, 'We're not going to work it any more'? What would you do?

Mr Scales—I was just trying to get clarification of the—

Senator MACKAY—What would you do? Would you find that acceptable? What would happen to those people?

Mr Scales—I was trying to answer your question. Were you suggesting that it was not voluntary?

Senator MACKAY—I am asking what is the definition of 'voluntary'. What if the workers under your jurisdiction turned around and said, 'We've had enough. We're not going to work any more overtime for a while'? What would happen to those workers? Nothing? Is that right?

Mr Scales—The employees are entitled under their award to make certain choices about the amount of overtime they would want to work.

Senator MACKAY—Let me get this clear, because this may happen. Let us say all the workers who are currently working these enormous hours, huge amounts of overtime, turned around to Telstra tomorrow and said, 'We've had enough. We're not going to work any overtime for a while. We choose, voluntarily, not to work the overtime.' Would you be happy with that situation?

Mr Scales—I was going to continue to answer the question and say that, also as part of the agreement, they are required to do a reasonable amount of overtime.

Senator MACKAY—What is reasonable?

Mr Scales—That is a question that is—

Senator MACKAY—Exactly.

Mr Scales—It is deliberately left vague by the law to allow people to be able to work with each other on that.

Senator MACKAY—What is reasonable as far as you are concerned?

Mr Scales—I think what we are saying is reasonable is, from time to time, to work Saturdays.

Senator MACKAY—From time to time? Is that once a month or once every two months?

Mr Scales—This will depend on the circumstances.

Senator MACKAY—Maybe you should think about defining it.

Mr Scales—Getting back to your point—and it is quite an appropriate one—around health and safety, our health and safety performance is now second to none. Our health and safety performance has been getting better every year. This is measured by what they call the long-term injury frequency rate. That is declining very consistently. It has declined over the last five years from something like 20 to a level of four. We take the question of health and safety very seriously.

Senator MACKAY—Did Telstra do an employee opinion survey this year?

Mr Scales—Yes, we did.

Senator MACKAY—How long ago was that?

Mr Scales—We are just collating all the information now.

Senator MACKAY—What date was last year's survey released?

Mr Scales—At roughly the same time. There has been no change in the employee opinion survey.

Senator MACKAY—What date was last year's survey released?

Mr Scales—Last year's survey was released around the beginning of July. This year's survey will be rolled out at around the same time. There is no change in the way in which we are handling our employee opinion survey.

Senator MACKAY—So there has been no change in the survey?

Mr Scales—No change.

Senator MACKAY—It will be released at the beginning of July?

Mr Scales—Yes, it will—as is normally the case. It will be gradually rolled out amongst the business units. We talk to the board about the opinions that come through the employee opinion survey. For your information—and I am sure you already have this—there was around an 84 per cent return rate on the employee opinion survey.

Senator MACKAY—It was pretty bad, wasn't it?

Mr Scales—No, it went exceptionally well.

Senator MACKAY—No, it was bad.

Mr Scales—No, it was exceptional.

Senator MACKAY—I am talking about what people are saying.

Mr Scales—We have not got the details of that yet. Nobody has the details of that.

Senator MACKAY—So you have no idea what it says?

Mr Scales—For this year, nobody has the details yet of what is in there.

Senator MACKAY—When was the survey taken?

Mr Scales—The survey was taken the same time as it was last year and the year before and the year before that.

Senator MACKAY—Which is when?

Mr Scales—It was from the period around March through to April. As I say, we are collating that information.

Senator MACKAY—You have no idea what is in it?

Mr Scales—No. In fact, I will be briefed for the first time on the preliminary information next week.

Senator MACKAY—My advice is that you might be a bit taken aback.

Mr Scales—Those that are suggesting that they know have not got the information to be able to tell you that, unless they have been colluding to make sure that the information is such as you have suggested.

Senator MACKAY—Don't be ridiculous!

Mr Scales—I am not. I simply do not know.

Senator CONROY—I want to come to this issue of overtime and the state of the EBA. You are at present trying to negotiate an EBA?

Mr Scales—No, we have finished our EBA.

Senator CONROY—And that has the 'reasonable amount of overtime'?

Mr Scales—What we try and do in an enterprise agreement is to meet the needs of both the employees and the company. That is what we try and do in these circumstances, and this one is no exception.

Senator CONROY—And the previous EBA?

Mr Scales—The previous one went for two years.

Senator CONROY—Did that include working on weekends?

Mr Scales—It worked a reasonable amount of overtime.

Senator CONROY—So the phrase 'reasonable amount of overtime' is consistent in both of them?

Mr Scales—I think that is the case. Just so that I do not mislead you, I will take that on notice, but I am pretty sure that that is the case. We will check that out.

Senator CONROY—Mr Rix, I understand that, at 10.41 this morning, the faults figure was back up to 1,841. That is almost 1,900 again.

Mr Rix—That actually surprises me, but I do not have that number. I have not continued to get minute-by-minute updates of the faults in Melbourne.

Senator CONROY—I will keep you updated during the course of the day.

Mr Rix—As I said before, I am not even sure of your source.

Senator Alston—Your earlier set of figures was contested, so you should assume that this latest set is also contested.

Senator CONROY—I am inviting Mr Rix to contest them again. That is why I will keep him updated.

Senator Alston—The point is that merely updating something for which you are not prepared to disclose the source—

Senator CONROY—My source is in Telstra computer, if you have not worked it out by now. I am not just making figures up as I go.

Senator Alston—I do not know where you think Telstra are getting their figures from.

Senator CONROY—That is what we are trying to confirm. Maybe we are reading two sets of figures off the same computer, so hopefully we will have it sorted out soon. The EBA had a reasonable amount of overtime. What was that previously defined as?

Mr Scales—I cannot give you a precise definition of that, but I will take that on notice.

Senator CONROY—You do not know?

Mr Scales—In answer to a previous question I was saying that, when one has an industrial instrument like an award, you are trying to get this balance between absolute precision and the ability to be able to meet the needs of both parties. You do not want a situation where employees—in our case our own technical staff—are being forced unnecessarily to meet a particular requirement because it might be in black-letter law. So you are not trying to do that. On the other hand, you are trying to have a situation where an employer can say, ‘We think this is reasonable; what do you think?’ That is why often some of these things are left deliberately vague by both sides. Whilst it is not often understood, these industrial instruments are meant to be working documents. They are not meant to be so prescriptive that you do not have the room to move one way or the other, for both sides. That is why they are constructed the way they are.

Senator CONROY—Could you tell us about the terms and the conditions of the new EBA?

Mr Scales—They are generally in line with the previous EBA. There are a couple of variations. Clearly, there is a pay rise that is associated with the EBA. The only major variation in this particular EBA from the previous one is the application of something that we spoke about at the Senate inquiry, and that is the development of a supplementary worker within Telstra. We have been concerned that some of our staff, and even some of our contractors, have said to us that they would like to work permanently for us but not necessarily permanently on a full-time basis. We are trying to create flexibility so people can have, to all intents and purposes, the benefits which would be associated from being casual or part time but still be an employee of Telstra. Therefore, they get some security, which they then know they have, and they know they have an arrangement that suits them. So that would be the major difference between this particular EBA and others.

Senator MACKAY—Coming back to this issue of reasonable overtime, let us say that Telstra employees who are working enormous amounts of overtime at the moment under a huge amount of pressure decided that they wanted to scale back to ‘reasonable’ under the provisions of the certified agreement. What do you mean by reasonable?

Mr Scales—If that were to happen, we would negotiate with our employees. We would try to understand what the circumstances were. We would work with them the same as we do on a day-to-day basis.

Senator MACKAY—But what does reasonable mean when negotiating with individual employees? As I said, let us say that all the Telstra workers who felt under pressure at the moment turned around and said to Telstra, ‘We’re not going to work these huge amounts of overtime anymore. We’ve had enough.’ What could they scale back so that their employment would not be jeopardised?

Mr Scales—What we would do in those circumstances, as I said, would be to sit down and work with those employees. Clearly, if they were a unionised work force—the part of the company which is unionised—and if they wanted to be represented by their union representatives, we would sit down with them, as we do now on a regular basis, and we would try to understand the nature of their concerns. If we felt that this was a permanent change in their preference, we would look at maybe using contractors. We would look at maybe employing other people. We would have a range of strategies which would help us to do that.

Senator MACKAY—If you have people working these amounts of overtime, I really cannot comprehend why you feel that you have the capacity to get rid of 1,500 more workers in the work force.

Mr Scales—I think Mr Stanhope might have some information about the generality of overtime. We should go through some of those numbers.

Mr Stanhope—At a macro level—and I have the figures for April 2002 to April 2003, so we have a full 12 month comparison—there is a seven per cent reduction, year on year, on overtime hours.

Senator MACKAY—That is because you have fewer staff.

Mr Stanhope—That would be a contributing factor.

Senator MACKAY—Give me a break! If you have got fewer staff, theoretically there should be commensurately less overtime.

Mr Stanhope—You might argue that with fewer staff they need to work more overtime, but I am pointing out to you the fact that the total amount of overtime has gone down.

Senator MACKAY—Because you have substantially fewer staff.

Mr Stanhope—I understand your point, but it is not disproportionate with the staff reduction.

Senator MACKAY—As I understand it, overtime is actually rostered. For the Telstra customer fieldwork work force, overtime is rostered. Doesn’t that imply it is not voluntary—if it is rostered overtime?

Mr Scales—No, it does not imply that necessarily. For staff who prefer to be rostered onto an overtime schedule, it does not necessarily imply that it is not voluntary.

Senator MACKAY—What if they did not want to work their rostered overtime—is that acceptable to Telstra?

Mr Scales—To go back to my previous answer, what we would do is sit down with the employees and try to understand their long-term preference. If they felt that their long-term preference was not to work overtime, we would work that into our own system. We would

then consider whether we would use contractors to replace the number of hours that they did not want to work.

Senator MACKAY—Why don't you think about not sacking 3,000 more people? Why don't you think about keeping the 1,500 that are currently examining and working on the network—not getting rid of them? How about that as a strategy?

Mr Scales—As I mentioned earlier, what we are trying to do all of the time is look at our productivity performance. What we are trying to do is make sure that we are doing more with less. I am happy to read out the numbers again about our performance over time.

Senator MACKAY—I will let Senator Conroy talk about matters of great moment for a while.

Senator CONROY—Senator Alston, yesterday we were talking about corporate governance issues around remuneration and the board. According to the 2002 Telstra annual report, non-executive directors who retire are eligible to receive 'additional retirement benefits'. Is the government aware of the recently released Australian Stock Exchange Corporate Governance Council guidelines? Recommendation 9.3 states:

Non-executive directors should not be provided with retirement benefits other than statutory superannuation.

I was wondering whether, as the majority shareholder, you would be letting the board know that this was inappropriate—as many companies are now doing, so this is happening out there in the marketplace. I think the Stan Wallis issue which we talked about briefly yesterday indicates that people are concerned about retirement benefits for non-executive directors. As the majority shareholder, are you prepared to communicate your views to the Telstra board about complying with the Stock Exchange Corporate Governance Council guidelines, which state that 'non-executive directors should not be provided with retirement benefits'? In other words, will you tell the Telstra board to cease this program?

Senator Alston—I did not quite catch the date. When was the first document?

Senator CONROY—It was the 2002 Telstra annual report.

Senator Alston—When was that published?

Senator CONROY—When was that published, Mr Scales?

Mr Scales—In October.

Senator CONROY—And these are the March 2003 ASX Corporate Governance Council guidelines.

Senator Alston—In other words, what was announced in 2002 preceded the ASX's view of the world.

Senator CONROY—Yes. I am just asking now whether or not you, as the majority shareholder, are prepared—

Senator Alston—To retrospectively suggest that arrangements entered into and publicly announced are no longer appropriate?

Senator CONROY—You can do one of two things: you can end the program, even though it is an existing program, or you can just say that there will be no further retirement benefits for any new director. You have the choice—if you want to play semantics with your retrospectivity argument. But the key principle is whether or not you, as the major shareholder, are prepared to ensure that the board of Telstra comply with the ASX corporate governance guidelines.

Senator Alston—We appoint people to the board on the basis of very extensive and very widespread commercial experience. Those people are very much aware of what is happening out there. They no doubt have ASX guidelines brought to their attention. These matters are taken into account. So rather than adopting your view of the world, which is, ‘I will decide how much you get and I will tell you or I will force you’—

Senator CONROY—This is the Stock Exchange.

Senator Alston—I am just saying that your approach seems to be: ‘We’ll tell the board what’s right and what’s wrong, and if they don’t agree we’ll probably exercise the ministerial power of direction. So we’ll run the company.’ That is not the approach we take. We say that we appoint qualified and reputable directors and they make decisions which take into account developments in the corporate marketplace and standards of governance, which presumably are largely relevant. I do not know, without looking at the fine print, whether this is immediately relevant. I do know, for example, when you suggest that redundancy payments should not get any more generous, that there was a news item last night about Greg Combet saying that the average redundancy of eight weeks should go up to something like 20.

Senator CONROY—I think he said 16, which is still well short of the 52 that you are prepared to endorse.

Senator Alston—Just double. Would you be saying to me that we should only double current arrangements? Of course you would not. You are saying that we should cut current arrangements. I am just saying to you that you have to take account of particular circumstances.

Senator CONROY—The Prime Minister has stated that for Ansett and other workers eight weeks is an appropriate community standard for redundancy.

Senator Alston—An appropriate community standard for employees.

Senator CONROY—You have given Dr Switkowski 52 weeks. But what I am asking here is whether or not you, as the major shareholder, are going to require Telstra to comply with the new ASX Corporate Governance Council ‘Principles of good corporate governance and best practice recommendations’.

Senator Alston—As I said, I think they are much better placed to digest all of the details. These are not binding regulations; they are guidelines. They are therefore deliberately couched in such a way as to enable businesses to use them when it is appropriate. That does not mean that you apply them as a template across every company in every sector. But again I think you need to read the guidelines first and consider—

Senator CONROY—I just read them out to you.

Senator Alston—You have read out to me a small portion of one guideline—recommendation 19.3 or something.

Senator CONROY—It was recommendation 9.3, ‘Guidelines for non-executive director remuneration’—that is what they are about. I read out to you the relevant section. You are welcome to have a copy if you like.

Senator Alston—Again, I think the Telstra board members are perfectly capable of taking those guidelines into account when they are making future decisions. It is not our job to tell them what to do and how to do it. I know that is your corporate view of the world, but we have confidence—

Senator CONROY—This is the Stock Exchange.

Senator Alston—We do not go around telling every board member in the corporate community that the Stock Exchange has just issued guidelines and you therefore have to do what they say or we will legislate. I have not heard you saying that.

Senator CONROY—I did not say ‘legislate’; I asked whether you, as the majority shareholder, are prepared to ensure that they comply with this principle.

Senator Alston—I have told you. We have never wanted to run their business. Obviously you do.

Senator CONROY—This is not about running their business; this is about complying with the Stock Exchange guidelines. Mr Humphrey even suggested that people who breached the guidelines could be referred to ASIC.

Senator Alston—You seem to think that guidelines are binding, and they are not. But, to the extent that you think they are appropriate to Telstra, do you have any reason to think that Telstra will not take them seriously?

Senator CONROY—I am talking to the major shareholder at the moment.

Senator Alston—Why would you pre-empt them?

Senator CONROY—You can encourage them.

Senator Alston—Why would I presume—

Senator CONROY—You can give them a bit of a nudge.

Senator Alston—Why do I need to give people a nudge? You might like to clock people behind the play. We would rather wait and see how they perform. If they are kicking goals, we will applaud them.

Senator CONROY—They have been involved in an outrageous rort by having a retirement benefit for non-executive directors. The market generally considers that these are a bit of a rort, and that is why people have moved against them.

Senator Alston—I doubt very much that the ASX—

Senator CONROY—You have sat back and let them get away with this rort for a while.

Senator Alston—is saying, ‘We are publishing guidelines to bring to an end an outrageous rort.’ I would be very surprised if the ASX has said that.

Senator CONROY—This is why they have brought them in; this is why they have recommended it—

Senator Alston—They might have brought them in for a variety of reasons.

Senator CONROY—Because it is seen to be a tort.

Senator Alston—Who says that? You say that.

Senator CONROY—Retirement benefits are not performance based.

Senator Alston—I do not know that the ASX has that view.

Senator CONROY—Lump sum payouts on the day that you retire which have got nothing to do with performance do not fit anybody's idea of good remuneration practices—except the government's apparently, Senator Alston. You have got the opportunity: just say, 'We agree with the Stock Exchange.'

Senator Alston—We agree with the Telstra board making their own decisions, not being second-guessed, pre-empted or directed by government. They are perfectly aware of what is happening in the real world. They will take into account ASX guidelines on this issue and a whole range of other governance issues and they will act appropriately. They have acted appropriately to date, and I have no reason to doubt they will continue to act appropriately in the future.

Senator CONROY—Mr Scales, the governance guidelines also talk about disclosure. Are Telstra planning to disclose the terms of the existing scheme for retirement benefits other than super for non-executive directors, as required by recommendation 9.5 of the ASX Corporate Governance Council guidelines?

Mr Scales—This whole issue of disclosure is a very sensitive one for the board. The board has discussed these issues throughout this year. It is currently trying to put together the appropriate disclosure arrangements for the end of this financial year when it puts together its annual report. This is an issue for the board to disclose, not me.

Senator CONROY—Sure, I appreciate that. I have been trying to avoid asking you about board policy.

Mr Scales—What I am really trying to say is that the board is very sensitive about the issues you are raising—very sensitive. It is very aware of the points that the minister has raised. At the same time, it is very sensitive about community expectations of boards and about remuneration boards and the construction of the remuneration boards, including the point that you made about retirement benefits. The board is very sensitive about that. But that is a decision that will have to be announced by the board at a time of their choosing.

Senator CONROY—I appreciate that—you cannot speak for the board. I would appreciate it if you could take it on notice to ask the board about that announcement. One last question: what formula is used to calculate retirement benefits to non-executive directors of Telstra?

Mr Stanhope—I think the formula is in fact disclosed in the annual report, but I will check that out for you.

Senator MACKAY—Just to complete the line of questioning I started earlier, is it true that Telstra team leaders who are in charge of 15 to 20 people in work areas have been trained recently in resource rebalancing?

Mr Scales—Resource rebalancing has been part of the company's operations for quite some time. I will ask Mr Rix to go into details if he wishes to.

Mr Rix—I am not aware of that. Resource rebalancing is not new to the organisation. I am just not aware of what training has occurred. I could take that on notice and see if there is more detail I can get in a particular area or state that could possibly help.

Mr Scales—Because it has been part of the arrangements with Telstra for many years, it is an issue we discuss with the unions and it has a particular connotation for the ways in which redundancies are made and so on. It has been part of the lexicon, I suppose, of the company for some time.

Senator MACKAY—I refer again to the *Hansard* of last Monday's Senate committee hearing in Sydney. The CEPU gave evidence—and I did ask people here to read the transcript and be prepared to answer questions about it—and said:

Team leaders throughout Australia—who are in charge of some 15 to 20 people in work areas—have been trained recently in resource rebalancing. They have been told that they are to get rid of two to three people in every work gang.

Is that right?

Mr Scales—I do not have any knowledge of those instructions being given out.

Senator MACKAY—Did you check it out after the Sydney hearing? Mr Rix, did you check it out?

Mr Rix—I did some research on this. Two out of 15 people—that is, around 14 per cent of the total work force out there; I think they were comments recorded in the *Hansard*. With regard to each group resource rebalancing two to three people per team, that is incorrect. Let me explain something that is occurring. Both of the fieldwork groups—metro and regional services—have recently undergone restructuring. The reason for that, which I have spoken about before, is the bringing back in of NDC work, the NNS work and the fieldwork groups. We have restructured the work grouping going forward and we have talked at other times about the programs that worked, the multiskilling et cetera. At this stage, the managers of those areas and the team leaders, as part of the structure, have not been identified. Until this time, there can be no decision regarding the construct of each team and the numbers in each team—that is, until even the managers are identified for each group.

Senator MACKAY—So the allegation that the team leaders have been told that they are to try—these are not my words—'to get to rid of two to three people in every work gang' is not right.

Mr Rix—That is incorrect.

Senator MACKAY—I will leave that for others to take up. Has anyone in Telstra done any work comparing Telstra executive and senior management salaries with those in the private sector?

Mr Scales—We do extensive surveys.

Senator MACKAY—So the answer is yes.

Mr Scales—We are in the private sector.

Senator MACKAY—Has Telstra done any work comparing Telstra executive and Telstra senior management salaries with those in other telcos in Australia?

Mr Scales—Yes, we have. Most of this information has been made publicly available, not by us but by surveys done by various consulting companies.

Senator MACKAY—Do you think that Telstra senior management salaries and Telstra executive salaries are broadly commensurate with those in other telcos?

Mr Scales—If you make comparisons with telcos around the world, no, they are not commensurate; they are lower.

Senator MACKAY—What would be the effect on those salaries of a fully privatised Telstra?

Mr Scales—It probably would not have much effect at all because it is operating in a particular market. What you are trying to do all the time is to find the right people in a particular market to operate in that market. So it is not likely to have much effect at all.

Senator MACKAY—Can you give the Senate a guarantee that there would not be any upward shift in executive salaries if the government is successful in privatising Telstra?

Mr Scales—No.

Senator MACKAY—No, you cannot. Back to the contracting issue: what does Telstra understand to be industry best practice with respect to subcontracting? In the building industry, it is my understanding that extensive subcontracting is no longer considered best practice because of quality control issues, but this seems to be a practice that Telstra still maintains. What is your understanding of best practice?

Mr Scales—Even in the building industry they use subcontractors. We can discuss that if you wish, but from our perspective better practice is that a contracting company is well structured, both financially and organisationally, has high-quality procedures in place, is able to guarantee the company that it can complete the work it is contracted to do and has the ability to transfer technology to Telstra over a period of time.

Senator MACKAY—Do you check into the details of subcontracting arrangements?

Mr Scales—Do you mean Telstra?

Senator MACKAY—Yes, not you personally.

Mr Scales—Telstra, of subcontractors or contractors?

Senator MACKAY—Yes.

Mr Scales—Yes, we do in some cases. For example—and this is only an example—when we look at environmental questions, we are conscious of Telstra ultimately being responsible for some actions of contractors and subcontractors to contractors. So we have a process where we are looking at their environmental capability to ensure—

Senator MACKAY—Is that routine?

Mr Scales—In that circumstance, it is routine.

Senator MACKAY—In what other circumstances does Telstra check out the details of subcontracting arrangements?

Mr Scales—I am not sure of any other circumstances. We try to tailor the circumstances to suit the requirement. The reason I used the environmental one is probably obvious to you: if we have people out there acting on our behalf, we need to take responsibility for any environmental degradation that might occur.

Senator MACKAY—So you do routinely check?

Mr Scales—Yes, in that instance.

Senator MACKAY—Only in that instance?

Mr Scales—Yes, that is the one I am more aware of.

Senator MACKAY—I am just curious because, in an answer to a question on notice at the ATN hearing on 6 December, Telstra told the Senate:

Telstra is not aware of the details of subcontracting arrangements put in place by its prime contractors.

Mr Scales—I am just trying to answer your question the best that I can. I do not know what the circumstances were at the particular time or what information the individual who answered that question had about our environmental approach.

Senator MACKAY—Maybe you could get me some more information on this issue of subcontracting. We will put some questions on notice for you. Is cable air pressure your area, Mr Rix?

Mr Rix—Yes.

Senator MACKAY—Are you sitting comfortably?

Mr Scales—Thankfully, that is you, Mr Rix.

Senator MACKAY—A quick pass to Mr Rix. Can you confirm that there is a \$40 million program to work on cable air pressure that aims to bring 250 cables a month to air pressure of 40 kPa and within this there is an accelerated program to bring all cables to greater than 20 kPa?

Mr Rix—Yes, I can confirm that the accelerated program exists. I am checking on the exact numbers, but that certainly sounds right to me. I have given evidence on that in the past.

Senator MACKAY—That is right. What are the priority areas for this program?

Mr Rix—Again, we have indicated that in the past. I will search through my notes and give you the exact priority areas at the moment. The Illawarra area attached to Sydney has been one of the key areas. The Central Coast, Sydney, parts of Adelaide and WA have all been part of those priority areas. If you are asking what the No. 1 priority was, it was parts of Sydney and the Wollongong-Illawarra region.

Senator MACKAY—Including Newcastle?

Mr Rix—Yes, it was one of the priorities as well.

Senator MACKAY—Perth?

Mr Rix—Perth is in that group.

Senator MACKAY—Tasmania?

Mr Rix—I am searching for that piece of information. If you would like, I could take that on notice.

Senator MACKAY—No, I do not want that taken on notice, if possible.

Mr Rix—The allocated resources are in New South Wales, Newcastle, Central Coast, Canberra, Wollongong, Perth, Adelaide and there are 10 people in Tasmania and Hobart.

Senator MACKAY—So Canberra as well as Tasmania?

Mr Rix—That is correct.

Senator MACKAY—Thank you for finding that information. Given this program and the need for extensive remedial work to restore cable air pressure to reasonable levels, how is it that Telstra has recently made regional field staff who work on cable repairs redundant in many of these priority areas, including 11 in my home state of Tasmania?

Mr Rix—I am not aware of that. A total of 188 resources have been dedicated to this accelerated program. I am happy to give you a breakdown of those.

Senator MACKAY—What I would also like is a breakdown of the redundancies in those priority areas, because there are 11 in my home state of Tasmania.

Mr Rix—Are you looking specifically for people that were working on this particular activity?

Senator MACKAY—Yes.

Mr Rix—I will take that on notice.

Senator MACKAY—I actually met with them, in my home state of Tasmania. Incidentally, Mr Scales, they read in the *Mercury* that they were being made redundant, the day before it happened. I turn now to the new ratings agency RepuTex, which John Hewson has set up. You know what is coming. It is made up of 21 community organisations to assess the level of corporate responsibility. Is it true that Telstra is one of only two top 100 Australian companies that declined to participate?

Mr Scales—Not as I understand it. I think there are many more.

Senator MACKAY—That is what Dr Hewson alleges.

Mr Scales—No, I do not think so.

Senator MACKAY—What is the situation then.

Mr Scales—I cannot vouch for what Dr Hewson says, but my understanding is that a large number of the top 100 companies will not be contributing.

Senator MACKAY—I have got an interview transcript which, in part, reads:

JOHN HEWSON: Telstra said that it wasn't a priority, which is interesting given that they're flat out trying to build community awareness and community tolerance and to demonstrate to people that they have a social conscience.

Further on:

BILL SCALES: Well I think it's a form of corporate bullying and I think it's somewhat ironic that an organisation that is supposed to be rating people on their corporate responsibility would take such an approach because they suggest because we won't become involved with a private commercial firm that want to rate us that somehow we're not prepared to be rated for our corporate responsibility and that is simply not right.

Mr Scales—That is the point I am making. We are one of them, but your question was whether we are the only ones. I am saying no. I am not denying—

Senator MACKAY—Let me rephrase the question. Did Telstra participate in Dr Hewson's new ratings agency RepuTex with respect to assessing the levels of corporate responsibility?

Mr Scales—No. We do not intend to participate in that, because we do not believe it is an appropriately rigorous assessment. We think the rating approach is fundamentally flawed and we are not going to participate in something like that. We do take our corporate responsibility very, very seriously. We have just established, less than two years ago, the Telstra Foundation, which allocates over \$5 million per year to community groups. We will be producing a corporate social responsibility report by which people can judge for themselves Telstra's approach to corporate social responsibility. We have an enviable record on the environment. Our greenhouse gas reductions per year—I emphasise that these are reductions—are roughly equivalent to the energy use of 50,000 houses per year. We have an enviable reputation in terms of what we do on the environment, in terms of our contribution to the community at large and, further, in the way in which we try and make sure—I know you may not agree with this—that we meet our customers' needs every day. We have nothing to fear, nothing to hide, and we will disclose that. But this particular index is simply not credible, and we will not be part of a ratings survey which simply has no credibility.

Senator MACKAY—Why isn't it credible?

Mr Scales—For the reasons I said earlier: it does not have in our view an appropriate scientific base for doing the evaluations.

Senator MACKAY—Why? I do not know anything about it, so I am interested.

Mr Scales—It is because the way the evaluations are done is primarily subjective, which includes bringing together a range of people who will have their own personal views about what constitutes corporate social responsibility.

Senator MACKAY—What range of people?

Mr Scales—They might be people from business, for example, who have their own particular view about what that means. On the other side, it might be people from the union movement who have their particular view. That is insufficiently—

Senator MACKAY—Perish the thought that you should get their views!

Mr Scales—No, it is not so much that. It is about the subjectivity of those things. We do reputation indexes all of the time; we try and understand issues about our reputation. We are very concerned about our reputation. But we make sure that what we do is scientifically based. This is not sufficiently scientifically based.

Senator MACKAY—Please continue about why this is not credible. I do not know what the nature of the survey is.

Mr Scales—Our objection is that it is not appropriate to have people who have particular views of the world, whether they are on the business side or on any other side of the community, making what are personal decisions based on their own preference, around what constitutes corporate social responsibility.

Senator MACKAY—Do you have a copy of the survey?

Mr Scales—No, I do not because it has not been run yet. It is a variation of a survey which was constructed by the *Age* and the *Sydney Morning Herald*. It takes into account a number of issues under this broad heading of corporate social responsibility.

Senator MACKAY—What did you mean by ‘corporate bullying’?

Mr Scales—I think Dr Hewson has been quite open about what he wanted to do. He wanted to highlight two high-profile companies, suggest that their non-involvement was somehow an indication of their lack of corporate social responsibility and their lack of preparedness to be judged on their corporate social responsibility. That form of outing, if I can put it that way, in our view was quite inappropriate. There was no contact made with us by Dr Hewson. There was no attempt made by him to contact any of us to go through the arrangements. We simply received a letter in the mail. We looked at that and tried to understand whether the rating process had any veracity. We came to the conclusion that it did not—on good grounds, I might say—and simply decided that we would not participate. To find that somehow this then became an issue whereby our reputation was put at risk we thought was outrageous.

Senator MACKAY—What was the reason for Telstra engaging Essential Media Communications?

Mr Scales—We wanted to understand the views of the Labor Party with regard to Telstra.

Senator MACKAY—Was that your decision alone?

Mr Scales—Yes, it was my decision.

Senator MACKAY—Have EMC delivered their report to you yet?

Mr Scales—No, they have not.

Senator MACKAY—Do you have any idea about the broad findings of the report?

Mr Scales—I have some general understanding of the broad findings of the report.

Senator MACKAY—Have they briefed you?

Mr Scales—Yes, they have verbally briefed me.

Senator MACKAY—How many Labor Party people were interviewed?

Mr Scales—I have not got the exact number, but I think there were around 25 people.

Senator MACKAY—How much did it cost?

Mr Scales—This may not be the exact figure, but it was around \$40,000.

Senator MACKAY—Why did you decide to engage EMC?

Mr Scales—Because I was concerned that, if I were to ask some of these questions, people may be less than prepared to be honest with me about their views. It seemed to me to be better to get an independent third party to try and obtain those views.

Senator MACKAY—Have any other consultants been employed by Telstra to investigate Telstra's relationships with any other stakeholders?

Mr Scales—Not that I am aware of.

Senator CONROY—You should try and get a decent consultant.

Mr Scales—Mr Stanhope has reminded me that we do customer surveys. In that sense, we are doing them all of the time.

Senator MACKAY—Why did you decide not to include the Democrats, Greens and crossbenchers?

Mr Scales—I was the one who took the decision, so I have to take full responsibility for it. I suppose I was concerned by what I regarded as the highly aggressive nature of ALP comments about Telstra and I was finding it hard to understand why those comments were made when on most objective measures Telstra's performance seemed to be improving so well. I think people understand who I am and what my values are. What I have tried to do, even within Telstra, is to be absolutely honest with my colleagues inside Telstra about the general performance and judge for myself the general performance. When I observed what seemed to be a very serious disconnect that might go beyond the normal issues of politics—which I fully understand, as you would understand that I would—I became concerned about why that might be. This was nothing more than me trying to best understand so that I am in the best position to be able to advise both the CEO and the other members of the leadership team about our relationship with a group of people where, on the face of it, it seemed as though there had been—for reasons about which I was not absolutely clear—a fracture.

Senator MACKAY—I think Telstra threatening to sue the shadow minister for communications probably did not help.

Mr Stanhope—I am sorry?

Senator MACKAY—Telstra threatened to sue the shadow minister for communications and that probably did not help, Mr Stanhope.

Mr Scales—That is possible.

Senator CONROY—He gets his way sometimes. That is two strikes.

Senator MACKAY—That did not help.

Mr Scales—That is possible, but what I was trying to understand was whether it was one event or whether it was a series of events. It was about trying to understand that so that we were in the very best position to make what I think are appropriate judgments about relationships with all people within the broader Australian community.

Senator MACKAY—Mr Scales, congratulations on the initiative and good luck.

Senator CONROY—I would like to go back to some of the discussions we were having earlier, Mr Rix. Do you have any updates or any further information?

Mr Rix—Certainly. Thank you, Senator, for the opportunity. At 12.14 p.m. today, 1,411 is the figure that I had passed to me. That is the figure, which as I explained earlier is all of the cable access network numbers plus our customer private equipment numbers, which is the measure of that particular issue we were talking about earlier.

Senator CONROY—So at 12.14 p.m. it was?

Mr Rix—At 12.14 p.m. the figure was 1,411.

Senator CONROY—Were you able to confirm what it was—I assume this is a matter of historical record on your computer—at about 10.41 a.m.?

Mr Rix—I have not got that at the moment. If it is stored on the computer I am sure that—

Senator CONROY—I am sure they are moving up and down during the day.

Mr Rix—They generally don't actually. They may move up slightly, depending on the conditions, or they may move down. Certainly towards the end of the day they will start to decrease as we start booking off work during the day. As you can see, it has gone up slightly from 8.15 in the morning.

Senator CONROY—At 8.15 a.m. you thought it was what?

Mr Rix—It was 1,273 to 1,411.

Senator CONROY—And at 8 o'clock I thought it was about 1,900, I think. I thought it was 1,825 at 8 o'clock and I thought it was 1,841 at 10.41 a.m..

Mr Rix—As I have alluded to, it may just be an issue of looking at different things.

Senator CONROY—Definition.

Mr Rix—But as I said, I cannot make that judgment. These are the official numbers that I am quoting you. Obviously during this time I have had them checked and rechecked and have spoken to the appropriate management within Telstra about them.

Senator CONROY—I might get you back for five minutes after lunch and, hopefully, we can sort it out.

CHAIR—If all you need is five minutes, we can do five minutes.

Senator CONROY—No. We break for lunch when we break for lunch.

Senator Alston—I think you should also consider the convenience of many Telstra witnesses.

Senator CONROY—I am.

Senator Alston—If you want five minutes, you have three minutes to go before it is even one o'clock. I think we are all prepared to sit here for another two minutes.

Senator CONROY—Okay. I can keep asking questions until one o'clock.

Senator Alston—So what you are really saying is that you have something you want to do over lunch before you pursue the matter.

Senator CONROY—No. I would like the figure. What I am asking is whether we can find out what your figure was at 8 o'clock and what it was at 10.41 a.m. so that we can confirm whether the figures I am being given are just completely wrong or not.

Senator TCHEN—Can't you trust your source?

Senator CONROY—Oh, I trust my source. My source is sitting at a Telstra computer. I have no problems with my source.

Senator TCHEN—You cannot expose him, of course, seeing he is supposed to be doing his paid job.

Senator CONROY—I may. Thank you for the opportunity. I may actually be prepared to name my source.

Mr Rix—Senator, may I just ask you whether your numbers—and I have quoted these—include things like those payphones that I spoke about earlier.

Senator CONROY—That is the definition issue that I am keen to try to clarify to ensure that we are not talking at cross-purposes.

Mr Scales—We could provide that information to you privately if you wish.

Senator CONROY—No, that would not do.

Mr Scales—Or it can be on the record or however the chair wants to do it. If it is only a factual question about verifying numbers, we are very happy to do that. That does not seem to be controversial.

Senator CONROY—No, it is a very important factual issue to try and resolve before you leave. I apologise that it is probably going to mean you are going to have to wait an extra hour and a bit, but it is a very important factual—

Mr Scales—We might be able to find out now, if the committee is prepared to wait for us to find out. If you are prepared to wait over lunch, we will try to find it out for you.

Senator CONROY—That is what I am saying.

Mr Scales—Why don't we try and find out—

Senator CONROY—I would love to be able to let you go so that you do not have to spend another hour in the building. We appreciate that you have been here a long time and you have been very patient with all of us.

Mr Scales—We will do our best to find that out over the next couple of minutes. If you are prepared to wait, we will get you that information.

Senator CONROY—Do you want to suspend temporarily while we do that? I am perfectly relaxed.

CHAIR—We will just wait for the information.

Mr Rix—Is it correct that we are chasing up the 10.41 number?

Senator CONROY—Yes—and the eight o'clock number, rather than the 8.15 number.

Mr Rix—Okay.

Senator LUNDY—I would just like to go back to a couple of the ADSL related issues. In particular, we received a notice from an ADSL reseller—Internet Vision Technologies, which is a customer of Connexus. Apparently, it lost its ADSL and SDSL connection via the Croydon exchange. Basically, it took some 24 days for Telstra to identify and admit there was

a problem—between the days of 9 April and 2 May. In fact, no action was taken until my office intervened on 7 May. My question is: why is that the case? And why was Connexus reconnected to the original ADSL system when it had been told for 29 days that a connection to that system was impossible? I will perhaps leave you with that issue to see if you can put together some information on it—or, if you are aware of it, please proceed.

Mr Mullane—Could you please repeat the name of the ISP?

Senator LUNDY—It is an ADSL reseller, Internet Vision Technologies, IVT, which is a customer of Connexus. My understanding is that the fault, the problem, was not admitted by Telstra and it had been a problem for some 24 days but when my office made inquiries they were able to rectify the problem and Connexus was reconnected.

Mr Mullane—We will have a look at that on notice.

Senator LUNDY—Thank you. I understand that the failure in service was caused by an upgrade involving a migration to new equipment in the exchange. According to Telstra, there was a problem with the newly installed Juniper BRAS technology that did not allow type D connections to operate. Apparently, Telstra offers type D connections to wholesale Telstra suppliers. In relation to those type D issues, Ms Leanne Joyce said:

Telstra has previously undertaken this migration activity with 3684 end customers up until 7th May with no end customer impact.

In relation to that, were those 3,684 customers BigPond ADSL clients or other wholesale or retail customers? Were these customers type D clients? Apparently, Telstra offers type D connections to wholesale Telstra suppliers. Does Ms Joyce's assertion cover customers adversely affected by a similar outage that occurred at the Collingwood exchange at the same time—that is, April? I do not know if you have got anyone here who can explain whether it is just wholesalers who are type D customers and why there is a distinction between them and others in this process of migrating to the new hardware. Can you help me with any of that?

Mr Mullane—Very briefly, there was an issue with the ERX Juniper device which is used to service our Wholesale customers. It was unable to support some particular defragmented protocol that some ISPs use. In the restoration of this issue, I understand that Telstra Technologies reverted the switch to its original state to get customers back on line, but there was a fundamental issue that had to be addressed. I am not sure where the restoration of that issue within the software of the ERX is at today, but we can find out. There was only a Wholesale impact, to my knowledge.

Senator LUNDY—So type D customers are Wholesale resellers?

Mr Mullane—I am not aware of the type D terminology, but it could well be something used in Telstra Wholesale.

CHAIR—Where are we at with the numbers?

Mr Scales—We are still trying to get them. It could be another five or so minutes.

Senator LUNDY—I am happy to keep going and make the best use of the time.

CHAIR—The plan is that we break here. Will you be concluded with your questioning then?

Senator LUNDY—No.

CHAIR—We might as well break if you want Telstra to come back after the lunchbreak.

Proceedings suspended from 1.06 p.m. to 2.03 p.m.

Senator CONROY—How are we going, Mr Rix? Are we getting any closer to solving our—

Mr Scales—Before we move on to that, we are trying to grapple with the definitions of what we are talking about.

Senator CONROY—I understand that.

Mr Scales—Because we could probably go on all day and get the differential—

Senator CONROY—If we are not able to sort it out now then, believe me, we are going home, because I have had enough!

Mr Scales—What we define in the context of what you are describing is really those things that are related to the CAN, the customer access network—the faults relating to the CAN and the faults relating to the CPE, customer private equipment or premises. If your source takes into account things other than that then we are not ever going to be able to reconcile.

Senator CONROY—Understood.

Mr Scales—Having said that, and on the assumption that the intention is to try and reconcile, perhaps you could take that into account. If they are not reconciled then, I suspect it is because other things, which we are not including, are being included by your source.

Senator CONROY—Thank you, I appreciate that.

Mr Scales—Having said that, I would like to pass over to Mr Rix.

Mr Rix—Thank you, Mr Scales. From our information, it is not a time stamp situation. We cannot go back and get 10.41 for you. It is a dump every hour. It will go through at 10 o'clock and then it will reload at 11, for example. When you go in, you will get a time stamp of the time you went in and picked it up, but the 10 o'clock figure will be the same as the 10.41 figure, for example, off the screen—whatever it was. I do actually have those numbers.

Senator CONROY—If I had a number earlier today at eight o'clock and you had one at 8.15, they should have been the same number.

Mr Rix—They should have been the same number. That is right. Just to clarify, at that particular time we were talking about contingency and when things go into contingency and what is the measure and the definition and all of that. That is where the numbers came in on the top. The contingency number is CAN and CPE, because that is the field work force going out and fixing that. That is why that is where that number is based. The number for us between 10 o'clock and 11 was 1,348, which was made up of CAN, 1160 and CPE, 88. Between eight and nine, it was CAN, 1,183 and CPE, 183, with a total of 1,286.

Senator CONROY—Are CAN and CPE the only ones that are relevant from your perspective for this calculation?

Mr Rix—That is correct.

Senator CONROY—Do my figures of 1,825 and 1,841 look comparable to any other figure that you have? You have subtracted out a number of things, but if you put them back on would that get close to the numbers I am quoting? It may be simplest to explain the problem as a definitional issue, which is entirely possible. Do you have any information on that sheet that says that, if you add in a couple of other things, you begin to get close to where I am?

Mr Rix—There are proactive faults—which I mentioned earlier today and which involve the running of tests overnight—and exchange and payphones. Those would be the three areas in which we would start to build that number up.

Mr Scales—It sounds as though that is what is happening.

Senator CONROY—Can I get the eight o'clock figure for those three categories?

Mr Rix—Yes. Collectively between those three at eight o'clock the figure was 405. Would you like the individual figures?

Senator CONROY—No. I am just doing some addition. At eight o'clock that gets us up to 1,691. We are still a little short of the 1,825 figure, but that could be something. What was the 10 o'clock figure for the category of three?

Mr Rix—It was 372 for a total of 1,720.

Senator CONROY—That is still about 120 off my information.

Mr Rix—That is all the information I can find.

Senator CONROY—Thank you for that. I am happy to move on.

Senator LUNDY—I would like to revisit the industry development aspects. You said that Telstra was not under any obligation other than to report on industry development. Do you undertake any specific initiatives to engage or involve Australian IT companies that you can refer to here, or is it more of a case that they get opportunities when they arise?

Mr Scales—I am not sure I can give you a full enough answer to that.

Senator LUNDY—I am happy for you to take it on notice.

Mr Scales—Why don't we do that, because, as you know, simply by the very numbers we have been talking about today, our IT activity is extensive. I know that we are always talking to IT companies. In the context that you are describing, I need to take that on notice.

Senator LUNDY—I am looking more for a specific program. I am certainly not aware that you have a specific program of engagement with the local IT industry, but perhaps you could look for any forums that Telstra conducts to engage with local stakeholders.

Mr Scales—We will take that on notice.

Senator LUNDY—Thanks for that. I have asked questions previously about who you actually use as subcontractors in the IT area, and I recall your saying that you did not think there was a basis commercially on which you could respond to that. I would like to formally put a series of questions to you about who you do engage.

Mr Scales—I do not think I said we could not formally respond. What I did not want to do was to give the exact numbers that I think you were putting to me at the time, because I felt that it might impinge slightly on the commercial issues around those three companies, in

particular. I think I gave you at the time some very general numbers, such that when you added them up they came to roughly the sort of IT spend that we were talking about.

Senator LUNDY—I am looking within those contracts. So we would be talking about those big contracts, the subcontracts within them and also the number of smaller contracts that you have. I would like to ask Telstra to itemise those contracts, with ballpark figures, if that is possible, including the subcontractors of the larger vendors you have engaged. What I am looking for is the percentage or proportion of local companies that you engage through IT outsourcing. Would you keep that aim in mind. I will submit a series of questions on notice that go to the detail, and I will ask you to answer them to the best of your ability.

Last night we were discussing the various activities surrounding pair gains. I do not want to revisit that too much, but you did start to talk, Mr Scales, about what Telstra was doing as far as taking remedial action was concerned, and the money that Telstra is spending on fixing some of those problems. I would like you to proceed with detailing those initiatives—obviously, IAP is one aspect of that, but I understand there are more—and also to confirm the figure of \$2 billion, which I think was put forward by someone as what you think the cost will be of replacing all pair gains.

Mr Scales—We were responding to a request from Senator Tchen.

Senator LUNDY—And that is your best estimate?

Mr Scales—No, it was not our best. We were trying to do that last night to respond as best we could to his question. The general point that we were making, I think, was not that we needed to replace all pair gains—far from it—and not that pair gains were not appropriate in the circumstances. Far from that, too.

Senator LUNDY—I am not suggesting that is what you were saying or that is what you were conceding. I am just interested in the figure.

Mr Scales—The only reason I raise that is that I know there has been some press comment today, and some press releases, suggesting that that was the case. I suppose we are just sensitive to the fact that there are customers that we deal with who are absolutely catered for by pair gains. We would not want to give them the impression—

Senator LUNDY—They would be people using the voice facilities. I do not think anyone is suggesting that you do not have the right to maintain that you want to keep pair gains. You have said yourself that they are adequate for voice, and that is certainly true. I think the issue is really whether or not they are adequate for the provision of broadband services or future services.

Mr Scales—I refer again to the media release that was made. It said that Telstra had been rolling out inferior technology as a cost cutting measure. That is what I was referring to. We would, as you would expect, deny categorically that this is an inferior technology. We believe it is right. We have tried to say at these hearings that what we have learnt is that in some circumstances—and you have alluded to one where certain data speeds are required—it is not the appropriate technology, and we are setting about remedying that. But, in terms of then putting all pair gain activities under that one banner, that is certainly not the way we think about it, nor is it appropriate.

Senator LUNDY—I certainly appreciate that that is Telstra's view. I guess my perspective is that of Internet users who require the network for data services and, preferably, if they could get it at an affordable rate—broadband data services. I am sure you understand that.

Mr Scales—I will ask Dennis or Don to cover off the specific points that you have asked as to what specific programs Telstra has in place to address any issues which we have found regarding the pair gain system.

Mr Pinel—The figures I have are more specifically related to regional Australia than metropolitan Australia. I do not have figures that are aggregated for the whole of Australia at this stage, but it is possible to do so. A lot of this work is done under various different programs and is not identified specifically as pair gain replacement.

Senator LUNDY—Let's start running through them. I will add up as we go.

Mr Pinel—For example, in regional Australia there is something like \$17.2 million planned for CAN rehab. Within that, some component will address pair gain systems, but the extent of that will depend on the individual jobs as they evolve through the planning process. I do not have that break-up at this stage. There is a further \$20 million this financial year that is more specifically aimed at the issues you raise. A very large portion of that is aimed at improving the CAN so that it will have less blockers in it from pair gain systems.

Senator LUNDY—Is that the removal of the ANT1s and the replacement of pair gains with straight copper for potential ADSL customers?

Mr Pinel—No, it is neither of those. It is looking more holistically at the CAN and areas where we can improve performance by reshaping the dimensions of the network.

Senator LUNDY—Do you mean removing rims?

Mr Pinel—No, not removing rims, but it may be removing—

Senator LUNDY—Supplementing rims?

Mr Pinel—Not specifically.

Senator LUNDY—Come on, be more specific.

Mr Pinel—It is more aimed at the smaller pair gain systems in the remote areas. I am talking more about country and regional Australia than metropolitan Australia.

Senator LUNDY—So six by 15, six by 16 pair gains—that sort of thing?

Mr Pinel—Six by 16s of course do not provide any problems with data speeds. It is a congestion issue with them in that you have five or six pairs in serving 16 customers, but when any one customer is connected he gets the full bandwidth available from the copper.

Senator LUNDY—I know what you mean. It makes it harder.

Mr Pinel—You monitor the congestion. As more people use the Internet—

Senator LUNDY—Can you tell me which type of pair gains that \$20 million is targeting?

Mr Pinel—It will be targeted at a range of things, such as 4DPGS and 2DPGS. In particular they are the highest targeted ones.

Senator LUNDY—And they are the ones that do not currently provide for bandwidth up to 19.2, aren't they?

Mr Pinel—I think 2DPGS will provide 19.2, but 4DPGS will not.

Senator LUNDY—So you are spending \$20 million or thereabouts to try and meet the 19.2?

Mr Pinel—That will incorporate some ancillary work as well, but fundamentally that is right. There will be some other elements to it, but that is basically it.

Senator LUNDY—What else?

Mr Pinel—I think there was a million dollars allocated specifically for transpositions associated with DSL.

Mr Mullane—That is opex.

Mr Pinel—Yes, that is opex. That was to provide something in the order of 14,000 transpositions.

Mr Mullane—I believe it is \$2.7 million, from memory. That is to do those transpositions we talked about yesterday.

Mr Pinel—We spoke about when customers apply for DSL and they are on a pair gain system. There are funds there to allow those transpositions to occur.

Senator LUNDY—Is that ANT1s as well, or is that separate?

Mr Pinel—No, that is not ANT1s. The ANT1s are replaced as a matter of course.

Mr Mullane—Yes, the ANT1s are part of baseline opex. As they crop up, they get done.

Mr Pinel—It is an ad hoc arrangement.

Senator LUNDY—What did you call it; opex?

Mr Pinel—Operational expenditure.

Senator LUNDY—How much operational expenditure was allocated for people who request ADSL to replace their copper?

Mr Mullane—It was not to replace their copper. Operational expense is basically the cost of labour to do some work. You are not adding a new asset of any sort to the network. You are altering things in it.

Senator LUNDY—So how much does that cost for that project?

Mr Mullane—For the transpositions, from memory, it was just under \$3 million in estimated operational expenditure. We have just started, so it is just an estimate—that is the best we can do. ANT1s are being done in the normal baseline labour budget.

Senator LUNDY—How many ANT1s are out there?

Mr Mullane—There were approximately just under 20,000.

Senator LUNDY—Okay, keep going.

Mr Pinel—The other program that Mr Scales referred to was the IAP, which is more a program that identifies customers who cannot achieve the—

Senator LUNDY—How much will Telstra be spending on the IAP in the next financial year?

Mr Pinel—The budget for next year is not set yet, so I cannot—

Senator LUNDY—Telstra's component was \$38 million originally, with \$12 million from the government.

Mr Pinel—That is right—\$38 plus \$12 million.

Senator LUNDY—You had expended a marginal amount of that last time we spoke—I think some \$2 million.

Mr Pinel—It is relatively small and the calling rate to the IAP is not high. So the numbers I expect next year when it is set will be somewhat lower than that, but I do not have those budgetary figures. I can get them for you when they are available.

Senator LUNDY—Anything else?

Mr Pinel—They are the major items for regional Australia.

Senator LUNDY—Can you take on notice providing me fully aggregated figures for the whole of Australia? Given that all of those types of pair gains are found in metropolitan areas, are you going to be offering CAN rehab in metropolitan areas, for example?

Mr Pinel—It will be part of the general capital program, yes. There will be an element of that.

Senator LUNDY—Will there be more money over and above that \$72 million for that purpose or does that encompass metropolitan expenditure?

Mr Pinel—The \$72 million is the regional one for this year. For next year the numbers are not yet set, so I cannot tell you specifically what that will be.

Senator LUNDY—Does that mean you will not be looking at CAN rehab in metropolitan or outer metropolitan areas in the next financial year?

Mr Pinel—We will certainly be doing it; I just cannot give you a quantum on it yet.

Senator LUNDY—If you could provide me with as much detail—

Mr Pinel—It is not an easy answer to give because there are so many parts of the capital program that can impact on replacement of pair gain systems, but we will give you the best figures we can arrive at.

Senator LUNDY—The systems that Telstra maintain are pretty good. That is a pretty comprehensive program to get rid of them, which I think is commendable and you should do more of it.

Mr Pinel—The other point that needs to be made is that a lot of this is related to demand. We would not seek necessarily to replace some systems unless there was an observed need to do so. If they are providing adequate voice services to customers, then we would not see a need necessarily to replace them, unless it was associated with another piece of work.

Senator LUNDY—That is what I call the squeaky wheel approach to management.

Mr Pinel—Thank you.

Senator LUNDY—As you know, Mr Pinel, only do something when someone complains. Maybe you can make that the company's motto.

Mr Pinel—No. It is not about complaints; it is about when there is an observable need for a change. A customer who applies for DSL is not complaining; they are merely applying for a service and at that stage we would do the transposition.

Senator CONROY—Get a press release out.

Senator LUNDY—Another one. I like that.

Senator CONROY—It is working.

Senator LUNDY—I would like to spend a brief time on ADSL, given that, if pair gains are replaced, that is the service that people would want to access. Can you tell me what a tunnel reset is?

Mr Mullane—It is a situation that can occur if a B-RAS, a broadband switch, has an interruption to service. For ADSL customers who are conducting sessions at that time, sometimes the situation of that switch issue can cause their authentication details to be frozen and the IP address needs to be released.

Senator LUNDY—Does that require someone to go into the exchange and press a button and change something?

Mr Mullane—No.

Senator LUNDY—Can you do it from your software?

Mr Mullane—There are not that many devices in the network, but it is a software controlled process.

Senator LUNDY—What is the device that is susceptible to an authentication problem that results in the requirement for a tunnel reset?

Mr Mullane—Could you rephrase the question?

Senator LUNDY—What is the bit of technology that fails?

Mr Mullane—There is a combination of things that interact. We have two of these B-RAS devices in the network. One is a device called the IPSN, which is a device supplied to Telstra by Nortel. The other is the eRx device, which is supplied to us from Juniper Networks via Siemens.

Senator LUNDY—So this is the problem we were talking about earlier?

Mr Mullane—No, it is not that problem—in fact, I have a little more information on that problem.

Senator LUNDY—It is another problem?

Mr Mullane—No, but I can give you some more information on that other problem.

Senator LUNDY—There are a few more problems I want to ask about too.

Mr Mullane—I am sorry?

Senator LUNDY—There are a few more problems I want to ask about too. So a tunnel reset is different from the issue I raised before?

Mr Mullane—That is correct.

Senator LUNDY—Okay. Can you tell me what a bearer failure is?

Mr Mullane—Which?

Senator LUNDY—A bearer failure.

Mr Mullane—Between the various components in the network—so, between our local exchange DSLAM and, say, a B-RAS switch—there is a bearer, which is fundamentally a transmission link. It usually runs by operating ATM protocol. It might be provided over our switch data network. It can also be provided directly on fibre for a fibre link. That is one form of bearer. They can be short or long. We have DSLAMs in places like Darwin, Port Hedland, Alice Springs, Mount Isa and those sorts of places, so they have long bearers. Then there are links in places like Canberra between, say, Barton and Deakin, which would have quite short bearers. Bearers are very common building blocks in the whole telecommunications network.

Senator LUNDY—So what happens when they fail—do they just stop working? What do you have to do to fix them?

Mr Mullane—They stop taking the bits that go in one end and delivering them to the bits at the other end.

Senator LUNDY—What do you need to do to fix that?

Mr Mullane—It depends. There could be a number of items that require attention. It could be the transmission system itself—in other words, the optical fibre related system, although it does not tend to be that too often—or a router that is at either end of the bearer, sending the packets to the appropriate places. It could be a termination of that transmission link onto an ATM switch. It can be a range of things.

Senator LUNDY—Going back to the authentication fault that you described, did you have authentication faults occurring in relation to the technology that you were installing? For example, the complaint I mentioned before cited the newly installed Juniper B-RAS technology. Are you still using that technology and have you got those bugs fixed?

Mr Mullane—In the case of the Juniper issue that you mentioned before, the Juniper device is fairly new to the ADSL network. It is a second vendor's B-RAS. We have both the Nortel and Juniper devices now.

Senator LUNDY—So are the Juniper ones the ones that resellers use?

Mr Mullane—We tend to shift ISPs from the Nortel device onto the Juniper device for the network going—

Senator LUNDY—Right—which is the nature of the complaint I went through earlier.

Mr Mullane—Yes. So those transfers were happening, and two issues arose, as I understand it. Where ISPs were using what they call fragmented type traffic and working off the Nortel IPSN, they did not have any issues. When they moved onto the eRx, there was an issue with this fragmented traffic. It was not an actual failure of any sort; it just was not specified fully in the description of the service requirements that were published by Telstra. We did not say you had to do it; we did not say you did not do it. It was just that the

customers who were using fragmentation then discovered that there was an issue as the connection to the eRx took place.

Senator LUNDY—Were you able to find an answer to my question earlier about why it took 24 days to fix ITVs?

Mr Mullane—I think that was the second issue. The second issue—which I am almost certain was that problem that took a long time to fix—is what they call an inter-networking issue. It is also associated with customers using the eRx device. There was a software table in that switch that, when the power for the customer's equipment was turned off, was not refreshed for six hours. What apparently was happening—and this could have happened to either retail or wholesale customers—was that, where customers had a LAN sitting behind their point of connection to the Telstra network and had that power off issue, those sub-addresses were not recognised for up to six hours.

Senator LUNDY—So let me get this straight: if a business were using this service and they turned their computers off and then turned them on again, as you do—

Mr Mullane—It would probably have been their router rather than their computers, I would say.

Senator LUNDY—there would be at least a six-hour delay in their getting—

Mr Mullane—There was a six-hour period before this table was refreshed. What happened, of course, was that people discovered there was an issue and were turning the power on and off, because that is the first thing you do when you have one of these sorts of issues. Of course, every time they turned the power off the problem started again. So then they would get the circuit tested with Telstra, and the circuit-testing results said, 'We can see the connection; we can see you,' and there was a high degree of confusion as to what the hell was actually happening.

Senator LUNDY—So your system said it was working?

Mr Mullane—The connection was working, but this issue about—

Senator LUNDY—The authentication wasn't?

Mr Mullane—Nobody could see the issue of this table taking six-hours to get reset over a—

Senator LUNDY—Has this been fixed?

Mr Mullane—They have put all those customers back on the IPSNs, where this issue has not been happening. There is a software correction that is going to be added to the eRx in mid-June and we have suspended all movements to the eRx until that happens.

Senator LUNDY—So what happens to companies like the one I mentioned before, IVT, who were really arguing to me that their business were severely damaged by the loss?

Mr Mullane—I am sure they have spoken with their supplier, Connexus, as I think you advised—

Senator LUNDY—Yes.

Mr Mullane—who, I am sure, are in touch with Telstra Wholesale.

Senator LUNDY—Is Telstra offering any compensation, given how you have explained the problem?

Mr Mullane—I am not across that level of detail, but we can take that on notice if you wish.

Senator LUNDY—I might pursue that with some other questions on notice as well. Finally, on this question of ADSL faults, do Telstra still get independent reports on the performance and levels of faults experienced in their ADSL services?

Mr Mullane—We had a very limited survey that was being undertaken over a period of time. Last year, I think, that came to the end of its contract period. The short answer at this stage is no, we ceased that process last month.

Senator LUNDY—Why?

Mr Mullane—We have a much more comprehensive capability internally.

Senator LUNDY—Good. That means you can furnish the committee with those reports.

Mr Mullane—We have a lot of information available and if—

Senator CONROY—She is very inquisitive.

Senator LUNDY—I am inquisitive.

Senator CONROY—She just loves information.

Mr Mullane—We would be happy to discuss with you information that is of interest to you.

Senator LUNDY—Telstra have got in place a sort of compensation or rebate system for people who experience down time on their ADSL service. I pulled something out of *Internet.au* magazine—I think—some time ago which referenced an ACNielsen.consult study which tracked broadband user satisfaction. It found:

... from July to August this year—

I think they are talking about 2002; I am not actually sure—

the customer satisfaction index for Telstra's ADSL services increased from a whopping 41 per cent to 53 per cent, suggesting that problems are being addressed.

Making the observation that 41 per cent is not a particularly good rating, obviously the results from those reports were somehow available. Could you provide the committee with those reports?

Mr Mullane—I will have to take that on notice. I am not sure they are the same reports we spoke about a moment ago.

Senator LUNDY—I guess what I am looking for is user satisfaction, but also the levels of down time of the ADSL service. I have heard all sorts of rumours about the average down time of ADSL still being 20 to 30 minutes a day, which is not particularly impressive. So I guess I am putting that to you and saying, 'Prove to me otherwise; prove that it is not that bad.' I also want to know the costs for those independent reports you were getting.

Mr Mullane—I can tell you the costs of the independent reports because I do know them. One of the factors that we were considering in relation to those reports is that they did have just a very small number of what I call probes.

Senator LUNDY—So it was a random survey?

Mr Mullane—No. Probes were fixed to a small number of individual services out there—something like six or eight. We were getting a very small sample, and a sample from a fixed location, such that it was not really giving us a true picture of the total network.

Senator LUNDY—Was it better or worse than you yourself were observing?

Mr Mullane—We did internal correlations against it and it was similar. But it depends how the probes are set up as to how frequently they attempt to call et cetera—which levels they go to. Suffice to say that more than 12 months ago we committed a substantial amount of Telstra funding to an alternative system, which is very flexible and gives us everything we were able to get, and a lot more, from that other system. We are starting to exercise that system much more deeply at this time. It was just a question of getting the best use of the resources that we had available to us.

Senator LUNDY—I look forward to seeing those reports.

Mr Mullane—We will provide you with samples of the reports.

Senator LUNDY—Also, can you provide—I presume that you will have to take this on notice—dollar figures for the ADSL rebate that you have had to pay out to customers who have had faults and delays?

Mr Mullane—We will have to take that on notice.

Senator CONROY—I have a couple of very quick questions and then Telstra can shoot through. Senator Alston, do you believe that Telstra should comply with the ASX Corporate Governance Council principles of good corporate governance and best practice recommendations? Oh, he is not there. Where has he gone? Are you hiding him?

Senator LUNDY—He is under the table!

Senator CONROY—I was sure he was there last time I looked. I will return to Visionstream for a minute, Mr Rix. Have Telstra got a call into Visionstream to provide any extra contractors in the Melbourne area at the moment?

Mr Rix—I will have to take that on notice.

Senator CONROY—I understand that Telstra requested 50 extra contractors from Visionstream in Melbourne to do fault and installation, which may explain why they are advertising in the Melbourne papers at the moment for more line workers. Does that not ring a bell at all?

Mr Rix—No, not as all.

Senator CONROY—That would be work that is currently being done by Telstra workers. I am just trying to get an understanding here of how this process is working. The argument we have been having most of the day, and some of last night, is, 'No, there is not too much overtime or too much of a problem contingency-wise in Melbourne.' I would appreciate it if you could get back to me on that.

Mr Rix—We made the point that the numbers of contractors do fluctuate seasonally and also in demand periods and when we launch different products or different services. There could be a reason, but I am just not up to date with why we are advertising.

Senator CONROY—Are you aware of any launch?

Mr Rix—No, I am not. That is why, as I said, I am not aware why we have asked Visionstream, if that is the case, to provide more resources in Melbourne at this stage.

Senator CONROY—Do Telstra have a standard redundancy package, Mr Scales, for all these people that we have been talking about who are being cut?

Mr Scales—Yes, we do.

Senator CONROY—What is it based on?

Mr Scales—The average for most employees would be in the vicinity of 40 to 60 weeks.

Senator CONROY—That is based on length of service.

Mr Scales—Level of service.

Senator CONROY—How long would you have had to work in Telstra to get 40 to 60 weeks?

Mr Scales—It is around four weeks for each year of service.

Senator CONROY—So that would be around 10, 12 or 15 years. Is that right?

Mr Scales—For 40 weeks it is about 10 years.

Senator CONROY—That figure of 40 weeks is for about 10 years.

Mr Scales—About that length of time. We do have a standard redundancy agreement in place.

Senator CONROY—I am finished with questions for Telstra. You cannot answer the question I had for the minister, Mr Scales, because it is a board policy issue. I was going to ask about complying with the guidelines in terms of early adoption. You do not have to wait until 2005; you could actually voluntarily adopt the guidelines now.

Mr Scales—I did alert you to the fact that the board is conscious of community standards in this area—it is examining these things—and it is a case of watch this space, I guess.

Senator CONROY—I will ask the minister about it when he gets back. Thank you very much all of you for your patience.

Senator LUNDY—Mr Chair, I have a couple of questions on notice. Mr Scales, can you give me a list of all the exchanges where the Juniper technology was installed and the name of ISPs that were affected by the problems you described?

CHAIR—I would like to thank Telstra for appearing here today.

Senator CONROY—I have one question for Senator Alston. Minister, I was just asking whether or not you believe Telstra should adopt earlier than 2005 the ASX Corporate Governance Council guidelines. They have the opportunity to adopt them for this year's annual statement. Do you think it would be good practice if they adopted the guidelines early?

Senator Alston—Not having seen them, I really do not think it is appropriate—

Senator CONROY—They have been widely consulted on; they have been much talked about.

Senator Alston—I am sure that they have, but some of us have tunnel vision. We tend to read some parts of the newspaper more avidly than others, and we do not always read every primary source.

Senator CONROY—I think you and I are both guilty of that.

Senator Alston—Again, all I would say is that I think they should be sensitive to whatever advice is out there. If there are new rules and guidelines and they choose to adopt them earlier than others, that is their call, but I do not think it is appropriate for government to be trying to run the business. These guys are all very competent. You have got some of the best people in the country on that Telstra board.

Senator CONROY—That is why they have halved its value—they have done a sensational job!

Senator Alston—You can make the same comment about telcos around the world—

Senator CONROY—You have helped them halve the value—that is true.

Senator Alston—They have actually comparatively done much better.

Senator CONROY—How much money did they lose in Hong Kong? Was it \$4 billion or was it only \$2 billion? I have lost count.

Senator Alston—With hindsight, you can always pass unfavourable judgments on strategic investments. I think at the time Telstra were regarded by the market as having been a bit timid about offshore investments. Certainly I can remember Frank Blunt saying in the mid-nineties that he hoped that 25 per cent of their revenue would come from offshore activities by the year 2000.

Senator CONROY—So how much money did they lose in Hong Kong? How much money did this brilliant board of yours lose?

Senator Alston—You can check the figures as readily as I can. If those businesses are ongoing, then write-downs are not quite the same thing as losses. You know that. You do not know that? So what do you call it if an ongoing business actually makes a profit?

Senator CONROY—You never lost \$5 billion on the currency markets either. That was just a write-down, was it?

Senator Alston—What do you call it?

Senator CONROY—Whatever the accountant lets you get away with. You can get away with it under GFS any way you want, but AAS31 requires that it be recorded.

Senator Alston—As I understand it, if there is no reasonable prospect then you are required to write it off in that year. But that does not mean that you cannot subsequently make a thumping profit and make a big comeback. And you will presumably pay tax accordingly on the difference between the ultimate sale and the written-down value.

Senator CONROY—Stick to the law and leave the accounting to others.

[2.44 p.m.]

Australia Post

Senator MACKAY—I note that Australia Post was not able to provide state by state figures on the number of returned government antiterrorism kits, as requested by the Senate on 10 February, until last Friday. Why was there such a long delay?

Mr McCloskey—Senator, we did provide that information back in February, through the normal channels.

Senator MACKAY—The reply to the question on notice came back last Friday.

Mr McCloskey—I am not sure what happened, but certainly we provided the answer to that question on notice back in late February.

Senator MACKAY—You provided it to whom? Where did you send it to?

Mr McCloskey—To the department.

Senator CONROY—To the minister's office?

Mr McCloskey—To the department.

Senator MACKAY—Minister, we did not get the information till last Friday.

Senator CONROY—That would be efficient for him. Come on, be fair.

Senator Alston—What are we talking about?

Senator MACKAY—This is the number of returned Australia Post kits. We put the question on notice on 10 February; we got the answer last Friday. Australia Post have just advised me that they sent it through the department in February.

Senator Alston—I suppose the department can tell us whether that is right.

Senator MACKAY—This happens all the time.

Senator Alston—There are so many conspiracy theories when you are in opposition, and so many genuine mistakes when you are in government. It is interesting, isn't it?

Senator MACKAY—Did you have any?

Senator Alston—I have had 10 years of remembering.

Senator MACKAY—Lots of conspiracy theories?

Senator Alston—Yes. You always presume the worst, don't you, if it suits your political purpose?

Senator MACKAY—No, that is not right. I know the old saying about a muck-up and so on.

Senator Alston—There you are. It is even above and beyond politics.

Senator MACKAY—However, four months is pushing the envelope a bit.

Ms Williams—I apologise, Senator Mackay. You asked me a question and I am trying to answer another one.

Senator MACKAY—Australia Post took a question on notice on 10 February about the number of returned antiterrorism kits. They sent the response to you in February. The response came to the Senate last Friday. What happened?

Ms Williams—As you would know, Senator, there is a lot of back and forth on these as to exactly what is required. I think this was one that was thought about quite hard to make sure that the answer was correct. There was some discussion between us and the minister's office to make sure that the answer was correct.

Senator MACKAY—Sometimes it is a conspiracy, actually.

Senator Alston—Do you think we should just cavalierly tick it through?

Senator MACKAY—It took 3½ months to get clearance from the minister's office. Which ministers were consulted?

Senator Alston—I am not aware of their regularly consulting other ministers. I would be very interested if they did.

Senator MACKAY—There is an Attorney-General issue here, Senator. Was there any consultation with the Attorney-General's office?

Ms Williams—Not from us.

Senator MACKAY—So it sat in the minister's office for 3½ months?

Senator Alston—I do not think that has been said so far.

Senator MACKAY—The information, now that we have got it, is pretty straightforward. It is a short answer. It just says that Australia Post have correctly provided information and then goes through, state by state, the number of returned kits. The preamble is one sentence. And that took 3½ months to get clearance from the minister's office. It is a long time to sit in somebody's in-tray. Is it a question of timing, that you had to give it to us because consideration of the estimates was coming up? That is the bottom line, isn't it?

Ms Williams—No. I do not think that is right. We looked at the answer, we talked to the office and there was some thought given to it.

Senator MACKAY—At what point did you talk to the minister's office about this? How many times did you talk?

Ms Williams—Since I didn't, I will have to find that out.

Mr Thomas—There were a number of discussions between us and the minister's office over this issue, and it did take some time to progress it through.

Senator MACKAY—When did you get clearance from the minister's office to provide the answer to the committee?

Mr Thomas—We would have provided the answer to the committee as soon as we were able to. I understand that the answer came through last week sometime.

Senator MACKAY—From the minister's office?

Mr Thomas—I think so, yes.

Senator MACKAY—Australia Post forwarded it to the department in February.

Ms Williams—We would normally send it as soon as it was completed and cleared. We would not hold onto it.

Senator MACKAY—Let me just restate that. Australia Post, very efficiently, provided the answer in February and sent it through to the department. The department then sends it through to the minister's office, where it sits for 3½ months. This is the answer on the return of the terrorism kits. On the Friday before estimates, the minister's office gives it the tick and the department, very efficiently, sends it to the estimates committee. Would that be a fair summation?

Senator Alston—I do not think the suggestion that it was sat on for 3½ months would be right.

Senator MACKAY—What did you do with it?

Senator Alston—I do not know, but I can certainly make some inquiries.

Senator MACKAY—Have you seen it? You have not seen it?

Ms Williams—As Mr Thomas said, there were some discussions about whether the information was complete, whether it was correct.

Senator MACKAY—Based on what? I am genuinely perplexed.

Senator Alston—Presumably, getting the figures accurate. Weren't you asking for numbers?

Senator MACKAY—But they have come from Australia Post. Why would you have cause to question them? What was the nature of the—

Ms Williams—I am not not answering; it is just that I was not involved in the discussions and I am not sure what they were about. But I presume it was questioning whether the figures were correct, whether they were the most recent figures et cetera. I do not know what they were about.

Senator CONROY—It took so long for them to come through that they could have been outdated by the time they got to us.

Senator MACKAY—I was going to say that maybe Australia Post could give us an update—it would probably take another 3½ months to get that! That is most interesting. Mr McCloskey, has Australia Post been able to actually count the kits or are these figures an estimate—if you can cast your mind back that far?

Mr McCloskey—The figures were an estimate.

Senator MACKAY—Senator Ellison, in an answer to me, said:

The arrangement has always been that Australia Post would estimate the number of kits returned.

That is correct. He continued:

This will continue to be done prior to the destruction of kits, so there will be no hiding of the number of kits that have been returned.

I do not think he counted on the estimates process! He continued:

The estimating will be done by Australia Post.

Ten out of 10 there! So it was an estimate, rather than an actual count.

Mr McCloskey—That is correct.

Senator MACKAY—It is a pretty good estimate for an estimate. For New South Wales and the ACT, you got 55,441. How did you ballpark that?

Mr McCloskey—I would not know how precisely how detailed a count was done at each centre. Some centres may have done it more specifically than others. Some may have estimated by having one container load of kits and multiplying it out across another two or three perhaps, and others may have counted every last one. I am not certain exactly how it was done, but we have always regarded it as an estimate.

Senator MACKAY—Mr McCloskey, are you sure that these figures are accurate?

Mr McCloskey—They are the figures that we were advised of. The count was undertaken—as we had undertaken to do at the estimates in February—as of 21 February. They are the broad numbers that had been returned at that date.

Senator MACKAY—I think that is the issue. I think what has happened is Australia Post's efficiency has in fact been stymied by the internal processes of the minister's office. When was the snapshot taken—10 February?

Mr McCloskey—No, 21 February. It was about a week after the end of the mailout. That was the date that we agreed on at estimates the last time.

Senator MACKAY—Absolutely; no problem at all.

Mr McCloskey—That is the date on which that count was taken.

Senator MACKAY—The snapshot as of 21 February was, for example, that there were 17,867 for Victoria. I am advised that there were 40,000 in the mail centre in Melbourne.

Mr McCloskey—I would have no idea where that advice has come from, I am afraid.

Senator MACKAY—What do we do now to get accurate figures as to how many have been returned?

Mr McCloskey—The figures that we provided as of 21 February were accurate as of that date. For Victoria, there were 17,867. In the final count, which was undertaken prior to the destruction of the kits, the Victorian figure had risen to 20,010. They are the figures that we have.

Senator MACKAY—So 20,010 as of when?

Mr McCloskey—That would have been around 25 March, when we received advice from the Department of the Prime Minister and Cabinet to proceed with the destruction of returned articles.

Senator MACKAY—So Victoria ended up being, as of 25 March, 20,010.

Mr McCloskey—20,010 is the figure.

Senator MACKAY—New South Wales-ACT?

Mr McCloskey—New South Wales-ACT was 78,000.

Senator MACKAY—Queensland?

Mr McCloskey—23,824.

Senator MACKAY—South Australia-Northern Territory?

Mr McCloskey—11,780.

Senator MACKAY—Western Australia?

Mr McCloskey—9,382.

Senator MACKAY—Tasmania?

Mr McCloskey—5,800. And that gives a national total of 148,796.

Senator MACKAY—The Tasmanian figure has not changed—is that right?

Mr McCloskey—That is right, Senator. It did not change.

Senator MACKAY—That is a bit odd, is it not?

Mr McCloskey—As I understand it, Tasmania was one of the first areas for distribution of the kit. It is a fairly small state, as you would know. Presumably those who were returning the kits did so within the period prior to 21 February. In other states, greater or lesser amounts continued to come back after that date and they are reflected in the numbers.

Senator MACKAY—Who actually did the estimates or the counting?

Mr McCloskey—They would have been done at the state level, within the facilities, where the returned articles were being kept.

Senator MACKAY—Would it have been the postal workers themselves who were responsible for them?

Mr McCloskey—It would have been a manager within the facility.

Senator MACKAY—The manager?

Mr McCloskey—Perhaps through some of his staff.

Senator MACKAY—So it would be the normal people who processed the mail, presumably?

Mr McCloskey—The normal people who have been involved in the storage of these kits on behalf of the Department of the Prime Minister and Cabinet.

Senator MACKAY—Are you absolutely sure that these figures are accurate?

Mr McCloskey—I am as sure as I can be. They are the figures we have been provided with back through our systems.

Senator MACKAY—Did you return those antiterrorism kits marked 'Return to sender' if the recipient had written a return address to the Prime Minister on them?

Mr McCloskey—If those particular articles had not been repackaged, at the request of the Department of the Prime Minister and Cabinet, those articles, even if they had had a specific address on them, were held for the department at the Canberra delivery centre.

Senator MACKAY—And then destroyed?

Mr McCloskey—Ultimately, they would have been destroyed—that is correct.

Senator MACKAY—Who made the decision for the destruction process?

Mr McCloskey—That was a decision taken by the Department of the Prime Minister and Cabinet.

Senator MACKAY—My advice from Minister Ellison is that the Attorney-General gave approval for the destruction of the kits in the Canberra Mail Centre.

Mr McCloskey—That might be a reference to the fact that the people at the Canberra Mail Centre sought permission at the local level, within Canberra, to destroy kits that they had on hand. That permission was granted, but when they referred that particular request for confirmation to national headquarters they were told not to destroy them.

Senator MACKAY—Take me through that sequence again, because we were told in the parliament that when this issue blew up the Attorney-General had issued permission for the kits held in the Canberra centre to be destroyed. Take me through the decision-making process.

Mr McCloskey—Before proceeding to destroy the kits consistent with that permission that had been given, Canberra Mail Centre management referred the matter to national headquarters in Melbourne. They were told not to destroy the kits, that our intention was not to have any of the kits destroyed until we received an instruction to do so nationally from the Department of the Prime Minister and Cabinet.

Senator MACKAY—So some kits were destroyed?

Mr McCloskey—No, no kits were destroyed.

Senator MACKAY—So no kits were destroyed and a request went in through Australia Post's national office?

Mr McCloskey—The request for confirmation that they could proceed to destroy the kits was referred to Australia Post headquarters in Melbourne. In response to that, the Canberra Mail Centre was instructed not to destroy the kits.

Senator MACKAY—By PM&C?

Mr McCloskey—No, by Australia Post. Australia Post management in Melbourne took the decision that none of the kits was to be destroyed until and unless we had instruction from the Department of the Prime Minister and Cabinet to do so nationally.

Senator MACKAY—When did the instruction to do so come through?

Mr McCloskey—That came through on 25 March.

Senator MACKAY—This is most peculiar, because I asked a question of Senator Ellison in the Senate on 4 March and he responded:

The advice that I have from the Attorney-General is that approval has been given for the destruction of some kits in the Canberra Mail Centre to address storage issues.

So what we are saying here is that permission was given by the Attorney-General and was actioned by Australia Post on 25 March?

Mr McCloskey—No. That permission given by the Attorney-General was presumably relayed to us through the Department of the Prime Minister and Cabinet, which is the

department through which our local people would have made the request in the first instance. When they referred that to headquarters in Melbourne for confirmation, they received an instruction not to proceed with the destruction of those particular kits.

Senator MACKAY—Not to proceed?

Mr McCloskey—Not to proceed.

Senator MACKAY—I am confused.

Mr McCloskey—Those kits were not destroyed until we received the national request from Prime Minister and Cabinet to destroy them on 25 March.

Senator MACKAY—And that is when they were destroyed—on 25 March?

Mr McCloskey—No. That is when the instruction came through. It would have been in the period following 25 March that they were actually destroyed.

Senator MACKAY—Do you know when they were destroyed?

Mr McCloskey—I am told that it was done progressively up to early May and that it would have been done through a secure contractor.

Senator MACKAY—Commencing when?

Mr McCloskey—Probably in the period fairly shortly after 25 March. It just had to be organised.

Senator MACKAY—So from 25 March through to—

Mr McCloskey—Early May.

Senator MACKAY—early May, there was a sort of progressive destruction at the Canberra Mail Centre?

Mr McCloskey—This would have been nationally. It would have been done separately in each centre. Arrangements would have been put in place locally.

Senator MACKAY—Have all the kits now been destroyed?

Mr McCloskey—Yes, they have.

Senator MACKAY—How were they destroyed?

Mr Sinclair—The process for the destruction of the articles was arranged in coordination with the Department of the Prime Minister and Cabinet. An external contractor was engaged for that process.

Senator MACKAY—Is that usual?

Mr Sinclair—That is a common arrangement that we have with other customers as well.

Senator MACKAY—Who was that external contractor?

Mr Sinclair—In this case it was Thiess.

Senator MACKAY—How were they destroyed by Thiess?

Mr Sinclair—Through their standard documentation destruction service, which is a secure service that is offered to customers.

Senator MACKAY—What did they do with them? Did they burn them or chuck them on the tip?

Mr Sinclair—I would need to confirm that for you, but generally the service comes through the form of a secure storage process, which is then subject to either a shredding destruction or, indeed, an incineration destruction.

Senator MACKAY—So we do not know whether it was shredding, then incineration or either/or?

Mr Sinclair—It could have been either/or. I can confirm that for you.

Senator MACKAY—Did Thiess do the contract work for Australia Post throughout Australia?

Mr Sinclair—My understanding is that Thiess were the prime contractor. They may have used subcontractors on some occasions, but again I would need to confirm that arrangement. That would be a matter for Thiess.

Senator MACKAY—So you are not sure whether they in fact used subcontractors in some instances?

Mr Sinclair—That would be a common practice for this type of national requirement, particularly in some of the more regional areas, for example.

Senator MACKAY—If subcontractors were used, how can you be assured that the security provisions were strictly maintained?

Mr Sinclair—That was a requirement of the contract between Australia Post and Thiess.

Senator MACKAY—It was in the contract, but did the contract cover the issue of subcontractors?

Mr Sinclair—I would need to take that on notice.

Senator MACKAY—How much did Thiess get for the destruction of the kits? What was the contract worth?

Mr Sinclair—I do not have that information available. The payment for the contract was under the standing contract we have with the Department of the Prime Minister and Cabinet, and it was to the department's account.

Senator MACKAY—Does that mean that Australia Post are not apprised of the final figure?

Mr Sinclair—We may be aware of it. I would need to confirm that final figure for you.

Senator MACKAY—Would that be hard to find out?

Mr Sinclair—We can investigate that.

Senator MACKAY—I would prefer that, rather than you taking it on notice because answers to questions taken on notice take a while to get back to us. So, in fact, PM&C ended up picking up the tab?

Mr Sinclair—Under the terms of the contract with the department, yes.

Senator MACKAY—Did the original contract between Australia Post and the government make any provision for the cost of the destruction of the kits?

Mr Sinclair—There was provision for the requirement of destruction.

Senator MACKAY—Really!

Mr Sinclair—There was no specific dollar amount identified in the contract, as I understand it.

Senator MACKAY—Why did the contract make mention of the potential destruction of the kits?

Mr Sinclair—Under the general conditions of contract we have with the Department of the Prime Minister and Cabinet there is a provision there in the event that documentation security and destruction is required. That is what I am referring to.

Senator MACKAY—Is that in all your contracts with PM&C?

Mr Sinclair—That is a general condition of contract for this type of comprehensive service that is offered to customers.

Senator MACKAY—Do you have a copy of the contract here?

Mr Sinclair—No, I am sorry.

Senator MACKAY—Can you get a copy? I do not want a copy for the committee; I just want to ask some questions about it.

Senator MACKAY—Senator Alston has deserted you, so you have no protection.

Mr McCloskey—We might be able to source one through our Canberra office. We can endeavour to do that. It may take a little while.

Senator MACKAY—Were any of the returned kits individually enveloped?

Mr McCloskey—By that, do you mean repackaged?

Senator MACKAY—Yes.

Mr McCloskey—Our assumption is that some of them would have been, but if they had been repackaged we would not have been aware of the content. If they had been repackaged, stamped and addressed, we would have delivered them as addressed.

Senator MACKAY—So they were dealt with just as normal mail, effectively?

Mr McCloskey—Yes, that is correct.

Senator MACKAY—How many return to sender terrorism kits were returned to recipients as opposed to those returned to sender?

Mr McCloskey—I am sorry, I am not sure that I understand.

Senator MACKAY—Just to contextualise it for you, we have some reports that recipients who put their kits back into the mail had them arrive back in their letterboxes a second time.

Mr McCloskey—I am not sure how that would have happened, given that there would presumably be no identification on the returned kit to enable it to be sent again to the person who had endeavoured to return it. It was an unaddressed service.

Senator MACKAY—That is odd. Maybe they got two lots of kits. Anyway, that is what we were advised. If Australia Post were concerned with potential tampering, why did Australia Post not get the packs checked out by the police?

Mr McCloskey—We have in place a very detailed set of procedures for dealing with any articles coming through the mail that may be suspected as containing biological, hazardous or chemical material. Those procedures would have applied to this particular mail-out or any of the returned articles in the same way as it applies to any article that goes through the postal network.

Senator MACKAY—So what is that procedure?

Mr McCloskey—If an article is suspected of containing any hazardous material, then there are procedures in place to deal with that. The first of those procedures would be to isolate the article, to assess its possible degree of hazard and then, if required, to engage the emergency services or the police, and indeed Australia Post's corporate security group, and take from there, depending on the assessment of the hazard that the article presents. There are very well established procedures in place for dealing with such articles. They have been in place in particular since the anthrax scares in the US in late 2001 and they are procedures that staff are well versed in.

Senator MACKAY—So the first step in the procedure would be to isolate the article?

Mr McCloskey—That would be correct, yes.

Senator MACKAY—The second step in the procedure is—

Mr McCloskey—Would be to assess whether or not in fact it does present a real hazard.

Senator MACKAY—What were the actual logistics of that?

Mr McCloskey—I think that would normally be that our corporate security people would assess—

Senator MACKAY—Did that happen in this case?

Mr McCloskey—In which particular case?

Senator MACKAY—In the case of the returned kits.

Mr McCloskey—In fact, of all of the returned kits there was only one instance where a kit was assessed as possibly posing a hazard because it appeared to contain a white powdery substance.

Senator MACKAY—Where was that?

Mr McCloskey—In Camperdown in New South Wales.

Mr Sinclair—On 7 March.

Senator MACKAY—So you have got all these returned kits. Are they all isolated? Forgive us for being somewhat confused. You have outlined a process. Were all of the kits suspect or none of the kits suspect? How did you determine which kits were suspect?

Mr McCloskey—Each article will be treated on its merits.

Senator MACKAY—So someone in Australia Post looked at every one. Is that right?

Mr McCloskey—No. If a particular article, as it was coming through, was seen to be suspect in some way then it would be isolated. That would apply to every article going through the postal network.

Senator MACKAY—So only one was regarded as suspect?

Mr McCloskey—That is correct—only one was seen as containing a white powdery substance that may have presented a hazard, and that was at Camperdown in New South Wales on 7 March.

Senator MACKAY—And how many were regarded as suspect?

Mr McCloskey—I do not have a figure on that. I do know that some that were initially put aside were seen to contain rice that had been put into it.

Senator MACKAY—Do you know how many were regarded as suspect?

Mr McCloskey—No, I do not have a figure on that. They would not have been logged, because as soon as they were seen to have been rice they were determined not to present a hazard and were not referred onto Emergency Services.

Senator MACKAY—Can you ballpark a figure?

Mr McCloskey—No, I cannot. No record would have been kept of those. There were reports, but there would not have been that many insofar as I have information. But I could not ballpark a figure.

Senator MACKAY—So what happened to the Camperdown kit? What was in it?

Mr McCloskey—That was referred to the New South Wales Police, I believe.

Senator MACKAY—What was the result of that investigation?

Mr McCloskey—The report back was that it did not contain any hazardous substance.

Senator MACKAY—What was in it—nothing?

Mr McCloskey—We do not know. We were just told that it did not contain any hazardous substance.

Senator MACKAY—What was the instruction to managers as to how they were to convey the message that there may be hazardous material in the kits to postal workers?

Mr McCloskey—I do not think there would have been any specific instruction to managers as to how they were to convey particular messages.

Senator MACKAY—But how was it conveyed?

Mr McCloskey—It would have been conveyed to those who were involved in handling the returned kits, which would have been I think a minority of our workers. It was first conveyed in early February when we received word of an email campaign that was urging some people to return articles with substances in them as a protest.

Senator MACKAY—But was it conveyed in writing? Logistically, how was it conveyed? I do not know why you are looking so bemused. I do not think it is that hard a question.

Mr McCloskey—How was it conveyed—

Senator MACKAY—Did you issue an instruction or did you put a letter out to your workers?

Mr McCloskey—I think an advice would have gone out from our national headquarters to the states.

Mr Sinclair—Just to add to Mr McCloskey's comment, that type of information is generally sent out in the form of a staff information bulletin or a management information bulletin. As Mr McCloskey mentioned, such advice was initiated early in February with respect to raising the awareness of the potential for such substances.

Senator MACKAY—So what date in February was the staff bulletin issued?

Mr Sinclair—On 6 February.

Senator MACKAY—And it was distributed to workers on 6 February?

Mr Sinclair—That information was distributed to management on 6 February.

Senator MACKAY—What is the normal turnaround time between instructions to management and then to workers? Presumably they pass it on pretty quickly, do they?

Mr Sinclair—Depending on the nature of the advice and the form it takes, and depending on the method that is used to further communicate the advice—through direct handouts, through noticeboard application or through staff face-to-face briefing sessions. It depends on the method.

Senator MACKAY—What happened this time around?

Mr Sinclair—As I am advised, a combination of those forms were used. I might add that, in the 12-month period leading up to, say, February or March of this year, in the order of 20 management information bulletins and staff information bulletins were issued on the subject of awareness of the potential for these sorts of substances to be in mail articles.

Senator MACKAY—Do you have a copy of the staff bulletin?

Mr Sinclair—I do not have a copy of the staff bulletin with me.

Senator MACKAY—Broadly, what did it say? This is, to be frank, something that I think you should probably have with you.

Mr Sinclair—The general intent of the bulletin would have been to inform management and staff and employees that there is some potential for hazardous substances to be present in the mail stream based on information that was circulating in the community via various forms of emails and newspaper articles.

Senator MACKAY—And it then went on to say what in terms of what an Australia Post worker should do?

Senator MACKAY—Did it then go on to say what Australia Post workers should do?

Mr Sinclair—I do not have the item in front of me. I have tried to describe the general intent.

Senator MACKAY—Just 'Be afraid, be very afraid'? It must be more than that. You put out an issue to Australia Post workers saying there is this potential hazard. You presumably give them some instructions about what to do.

Mr Sinclair—Certainly. The instruction would have referenced the procedure that Mr McCloskey described, which is the standard procedure for CBR, to provide awareness of the need to exercise that particular procedure, and to provide points of contact for individuals if they indeed need further information.

Senator MACKAY—Would we be able to get a copy of the staff bulletin?

Mr Sinclair—I believe that is possible, yes.

Senator MACKAY—You said there were about 20 bulletins issued in that 12-month period. Was there also a bulletin issued regarding the retention of kits and not destroying them—that is, ‘Keep kits, don’t destroy’? We have just been through with Mr McCloskey the process there.

Mr Sinclair—Could you rephrase the question for me, please?

Senator MACKAY—Did you put out any bulletins with respect to keeping kits and not destroying them?

Mr Sinclair—Instructions were issued to facility management with respect to the holding of the kits at the specified locations until a specific directive was given. As Mr McCloskey identified earlier, that directive was provided after 25 March, when we were provided with a direction to destroy those kits, by the Department of the Prime Minister and Cabinet.

Senator MACKAY—How does Australia Post account for the fact that we were advised that so many postal workers were unaware that the antiterrorism kits were not being treated in the same way as other returned unaddressed mail?

Mr McCloskey—I think it is fair to say that, given the particular arrangements that were in place, there was no need for most staff to be aware of any arrangements in relation to the kits, because it did not form part of their day-to-day working procedures. Those staff that did need to be aware were made aware.

Senator MACKAY—Are you sure?

Mr McCloskey—Certainly, yes.

Senator MACKAY—When the kit in Camperdown was identified, who did Australia Post tell other than the New South Wales Police? Did you communicate with PM&C?

Mr Sinclair—No.

Mr McCloskey—No, we would have had no need to communicate with PM&C.

Senator MACKAY—So PM&C do not know about the one kit in Camperdown until today, when it has become public through estimates?

Mr McCloskey—We would have had no need to advise them. We certainly did not advise them.

Senator MACKAY—So they did not know? They know now, because it is publishable.

Mr McCloskey—They would know now; but, no, they would not have known previously.

Senator MACKAY—Was there no general instruction to staff to keep the kits and not throw them out with other unaddressed returned mail?

Mr Sinclair—There were specific instructions to management and supervisors with respect to the need to keep those items.

Senator MACKAY—To keep the kits in general?

Mr Sinclair—The returned kits.

Senator MACKAY—When did that instruction go out?

Mr McCloskey—The first instruction went out on 10 January. That was one that went to issues such as the general handling and distribution arrangements, including an indication that a count would be required at some stage in the future. Similar general instructions went out on 28 January, and again on 7 February.

Senator MACKAY—When did the kits start to be posted out?

Mr McCloskey—On 6 February. Distribution of the kits went from 6 to 14 February.

Senator MACKAY—The instruction that was issued on 10 January was issued to whom—management and then through to the workers concerned?

Mr Sinclair—That instruction was issued by the mail networks division to the state operations managers, with the intent that it be forwarded to their facility managers.

Senator MACKAY—Was it?

Mr Sinclair—That is my understanding. And, as Mr McCloskey said, that general advice was issued on 10 January, 28 January and 7 February.

Senator MACKAY—How did supervisors pass on, say, the instruction that was issued on 10 January? Was it formal, informal? How was it passed on? The reason I am asking all these questions is we have had reports of the kits being treated in the normal returned mail way, not being put aside—hundreds and thousands of them. I am just trying to work out where the breakdown in communication occurred, just a contextualise it for you.

Mr Sinclair—I can only describe the general practice for such instructions, which is that the facility managers would provide either a verbal or written direction to their supervisors or production managers and that would be then communicated through face-to-face contact with various team leaders, who provide the first line of supervision, through team communication sessions or through direct transfer on pieces of paper. As I said earlier, it could have been, and most likely was, a combination of those.

Senator MACKAY—Is Australia Post aware of circumstances where the instruction perhaps was not passed on—maybe it was a verbal instruction or whatever—and Australia Post workers were handling these kits in the normal way they would handle returned mail?

Mr Sinclair—I am not aware of that.

Senator MACKAY—Is anybody else in Australia Post aware of that?

Mr McCloskey—I am not aware of that. There would be no reason for the instruction not to be passed on.

Senator MACKAY—I do not think it was, in many cases.

Mr McCloskey—We have no reason to believe that it was not.

Senator MACKAY—Do you have any evidence that it was not?

Mr McCloskey—No, we do not.

Senator MACKAY—Do you have any evidence that some kits were handled in the normal way that returned mail would be handled, as distinct from the way that this particular mail was to be handled?

Mr McCloskey—No, we do not. We put in place arrangements at the request of the Department of the Prime Minister and Cabinet for these particular items to be treated in a particular way. Arrangements were put in place across the network for that to happen, and that is what happened.

Senator MACKAY—Did you check?

Mr McCloskey—In what way?

Senator MACKAY—Did you check to see whether there were any kits being handled in the normal way in which normal returned mail would be handled, as distinct from the provisions of the contract with PM&C?

Mr Sinclair—I cannot advise you on that question, other than to say that this matter had a high degree of visibility and the normal vigilance and assurance processes would have been applied.

Senator MACKAY—So you did not check. We know that there were kits being handled—

Mr McCloskey—Some people may have checked at different times. As Mr Sinclair said, there was a high degree of visibility. So I have no doubt that some sorts of checks and confirmation took place along the way to ensure that it was happening.

Senator MACKAY—I understand that you have no doubt, but what evidence to you have that checks were undertaken?

Mr McCloskey—I do not have any specific evidence.

Senator MACKAY—You are just assuming there were checks. You do not know that there were checks.

Mr McCloskey—That is correct. It is an assumption. But I think in terms of the operational environment in which we operate it is reasonable to assume that certain checks would have been taken. Certainly instructions were issued and those instructions were reinforced a number of times.

Senator MACKAY—Mr Sinclair, have you got copies of those instructions there?

Mr Sinclair—Not with me.

Senator MACKAY—You have got there the dates that they were issued, but you have not got copies of the instructions?

Mr Sinclair—That is correct.

Senator MACKAY—Mr McCloskey, we were advised that thousands of kits were handled in the normal way returned mail is handled. Are you saying that our information is incorrect?

Mr McCloskey—We do not have that information. I am certainly not in a position to contradict you absolutely, but we put in place particular arrangements, and to the best of our knowledge those arrangements were complied with.

Senator MACKAY—But you have not checked?

Mr McCloskey—I have not personally checked, no.

Senator MACKAY—Has anybody checked?

Mr McCloskey—There were instructions, as I said earlier, that were issued, reissued and reinforced and there would have been phone calls, emails and the like, I am sure, through the system. It is a very complex and diffuse network that we operate in, so we had to ensure that the message was out there—and we did.

Senator MACKAY—I know that. That is why I asked whether you had checked—because it is complex and diffuse.

Mr Sinclair—I am aware of and was involved in a number of specific instances where the mail network division did teleconference, certainly on a weekly basis and every several days, with the responsible operations managers. The purpose of that process was to ensure that the instructions and the directions were visible and to ensure that the status of the various accounts and processes was under way. But I would reinforce Mr McCloskey's comment that we are unable, at this point, to specifically answer your question in the affirmative, other than those comments.

Senator MACKAY—All right. Perhaps you could take it on notice. Can Australia Post confirm for the record the net profit, total ordinary dividend and total special dividend for 2001-02?

Mr Meehan—Certainly. The total profit after tax for the corporation for that period was \$291.8 million. We distributed \$175.1 million of that in ordinary dividend and \$116.7 million in special dividend.

Senator MACKAY—What are Australia Post's projections for net profit, ordinary dividend and special dividend for 2002-03?

Mr Meehan—That is not something that we normally provide at this time of year, though our expectations are that our profit will be similar to that of last year.

Senator MACKAY—I see. You do not do projections?

Mr Meehan—We do.

Senator MACKAY—So what are your projections?

Mr Meehan—Those projections are done as part of our corporate plan process with the shareholder ministers, and discussions go on between the directors and shareholder ministers about that profit and the expected dividend out of that process.

Senator MACKAY—Okay. So what are the projections?

Mr Meehan—I do not believe that is appropriate at this stage. These figures are confidential—between us and the shareholder ministers—and at this stage the final result is not known. Our expectations are that they will be similar to last year.

Senator MACKAY—That is not good enough. We have just been through an exercise with Telstra where they actually managed to finally tell us how many staff reductions they were looking at. These are Senate estimates, this is the parliament of Australia, and Australia Post is totally publicly owned.

Mr Meehan—Certainly.

Senator MACKAY—I want to know what your projections are for 2002-03.

Senator Alston—They are commercial-in-confidence.

Senator MACKAY—They are not commercial-in-confidence—it is the government.

Senator Alston—You do not think the government is running this as a government business enterprise?

Senator MACKAY—It is a contravention of standing orders and you know it.

Senator Alston—You do not think this is government business enterprise?

Senator MACKAY—It is a contravention of standing orders, Richard, and you know it. They have to provide their information.

Senator Alston—If you are arguing that commercial-in-confidence does not apply, then you are throwing a very hallowed concept out the window. That has never been accepted by these committees and it will not be accepted now.

Senator MACKAY—What are budget estimates for, Richard?

Senator Alston—To ascertain legitimate information, but not to prejudice—

Senator MACKAY—For which financial year?

Senator Alston—not to prejudice—

Senator MACKAY—For which financial year—this financial year or next financial year?

Senator Alston—It depends on the question you are asking.

Senator MACKAY—Which budget are we talking about? Are we talking about the 2001-02 budget or the 2002-03 budget? I think we might be talking about the 2002-03 budget.

Senator Alston—I am talking about matters that might be commercial-in-confidence. They do not necessarily relate to budgets. They might relate to past years. I would have thought last year's figures would probably give you a pretty fair indication of this year's.

Senator MACKAY—I am not going to argue about this. You are in contravention of standing orders.

Senator Alston—That is asserted.

Senator MACKAY—You are. Are you instructing Australia Post not to provide that information?

Senator Alston—Do you get away with this sort of nonsense at branch meetings? You just tell people.

Senator MACKAY—If you are telling Australia Post not to provide us with information—is that what you are doing?

Senator Alston—I am saying that if they tell you that they are entitled to withhold that information because it is commercial-in-confidence—

Senator MACKAY—On what basis is it commercial-in-confidence?

Senator Alston—Because it could prejudice their commercial activities.

Senator MACKAY—I am not asking you; I am asking Mr McCloskey.

Mr McCloskey—There is a very clear process in place with regard to our projections and reporting our results and our performance against our projections.

Senator MACKAY—Yes. On what basis is it commercial-in-confidence?

Mr McCloskey—Our act lays down specifically the sorts of things that we have to include in our annual report for a particular year, including what the profit and dividend projections for that year were and what they were in actuality subsequently.

Senator MACKAY—That is not my question. There are very strict procedures now within the Senate for agencies, particularly agencies like yours, for claiming commercial-in-confidence. On what basis do you claim commercial-in-confidence?

Mr McCloskey—Under the legislation, there are very specific elements within our corporate planning process and our relationship with our shareholder or with government. That process is very clearly laid out there. It is a corporate planning process that is undergone each year, and certain—

Senator MACKAY—Just hold on. I am going to get the secretary to get advice from the Clerk. We will continue with the questions.

CHAIR—The question can be taken on notice.

Senator MACKAY—They are refusing to take it on notice.

CHAIR—So be it. If it is commercial-in-confidence, that can be determined. If Australia Post is claiming commercial-in-confidence because the matter is commercially sensitive, then there is very little we can do about it. That is the way it is.

Senator MACKAY—But they are required now to define the nature of commercial-in-confidence and why something is commercial-in-confidence. It is not a blanket defence.

Senator Alston—Let us take it on notice and we will do a proper analysis.

Senator MACKAY—I would like the secretariat to ask the Clerk of the Senate for the guideline with respect to commercial-in-confidence.

Senator CONROY—It is very narrow.

Senator MACKAY—You can take it on notice and we will come back to it later on in the questioning.

Senator CONROY—Very narrow.

CHAIR—Indeed it may be, but nevertheless—

Senator CONROY—And even then we can still ask.

Senator MACKAY—We will come back to it. What are the cumulative effects on Australia Post investment and business performance of not having any net profits to reinvest in the company in 2001-02?

Mr Meehan—We discussed this in the last period. The cumulative effects have not had a great influence on Australia Post. We have a standard dividend scheme where we provide the government with 60 per cent of our after-tax profits, so it is the excess of that. In each period that we are referring to, it is around a little over \$100 million. If we did not have anything to actually invest it in—an acquisition or machinery—we would invest it at around five per cent. We would have income tax on that amount of investment earnings. We would pay a dividend potentially of 60 per cent. The net cost to us in profit terms, other than the fact that the cash is no longer with us, is under \$2 million a year in the actual impact it would have on cumulative profits going forward. What it does mean is that we have less cash available than we would have. The Post has enough cash reserves. These decisions are only made in light of the economic circumstances at the time, our specific cash reserves at the time and our capital program in the 12 months going forward.

Senator MACKAY—Your contention is that it is not having a negative effect on Australia Post's overall performance?

Mr Meehan—It is not having a negative effect at this stage, no.

Senator MACKAY—So the funding situation is adequate?

Mr Meehan—Correct.

Senator MACKAY—Then why did stamps go up?

Mr Meehan—Stamps went up on the basis of maintaining our profitability as a government business enterprise.

Senator MACKAY—So if they hadn't gone up, would your profitability have been maintained?

Mr Meehan—No, not at this level.

Senator MACKAY—What would the shortfall have been?

Mr Meehan—The easiest way to describe it is to say that with the 5c increase in the basic postage stamp letters business will break even this year. The other easy way to describe it is to say that we used to lose 11c on every individually stamped piece of mail and we now lose 6c.

Senator MACKAY—What would the impact on profitability have been if you had not had to cough up the \$100 million special dividend to Mr Costello? Would you have had \$100 million more?

Mr Meehan—No, that is \$100 million less in cash we would have to invest. The particular example I showed you before shows a less than \$2 million impact on profit.

Senator MACKAY—So you have a \$100 million special dividend to the government and you have got an increase in stamps.

Mr Meehan—Correct.

Senator MACKAY—If those two things had not occurred, what would Australia Post's financial situation have been?

Mr Meehan—The impact on the stamps for the full year this year is about \$54 million—

Senator MACKAY—Right.

Mr Meehan—plus the special dividend. I have attempted to explain in the past—obviously not successfully—that there is a cash position and a profitability position, and the increase in this stamp price is all about the long-term profitability of Australia Post. I am sure senators are aware that the price had been at 45c for 11 or 12 years.

Senator ROBERT RAY—I have just been in another estimates committee, and for the last hour there we have been discussing the dispatch of centenary medals from Government House. The post office have managed to take bulk postage to an MP's office, open it up and send all the individual medals out to the recipients, which has, of course, wrecked any chance of holding a public ceremony. The post office have misdirected another whole bunch from Tony Abbott's office down to Ms Corcoran's office in Isaacs. Because you have been working on rectifying it, I assume you have got some explanation as to how this chain of events occurred. Seeing as I cannot say you have come up in a good light in the other committee, I am giving you a chance to put an explanation on the table.

Mr McCloskey—We are aware that there were some problems associated with the mail-out of the centenary medals in that a number of the bundles of packages that arrived in delivery centres for delivery to the local member were in fact unbundled and delivered as addressed to the individuals.

Senator ROBERT RAY—This was registered mail, wasn't it? That is what I have been informed, anyway.

Mr McCloskey—I am sure your information is correct.

Senator ROBERT RAY—I just wonder how you can take a registered mail item and unbundle it.

Mr McCloskey—I understand it to be the case that there were 10 of these packets that contained the medals and that there was a strap around them. The top packet was addressed to the local member and each of the other nine—because they were in bundles of 10—was addressed to the intended individual recipients.

Senator ROBERT RAY—Were these poorly packaged in terms of postage?

Mr McCloskey—No, they were strapped in this particular way.

Senator ROBERT RAY—They didn't fall apart, then?

Mr McCloskey—No, our information is that they did not fall apart and that they were unstrapped at the final office of delivery. Because the other parts of the package were items that were individually addressed they were subsequently delivered in that way to the recipient whose name and address was on the particular item.

Senator ROBERT RAY—I cannot understand that you have got bulk postage, which is registered, but the constituent parts can then be sent out unregistered.

Mr McCloskey—My understanding is that each of the items had an individual address, an individual postage paid imprint and an individual bar code on them.

Senator ROBERT RAY—Have you had any contact with Government House to suggest how these problems could be avoided in future?

Mr McCloskey—I believe that our account manager in Canberra has been in contact with Government House.

Senator ROBERT RAY—And the result is?

Mr McCloskey—They will be looking to ensure that there is absolutely no repeat of this in the future.

Senator ROBERT RAY—So you think the post office is responsible for the muck-up on this occasion?

Mr McCloskey—Certainly from what I have been told, I think there was some fault on the part of Australia Post.

Senator ROBERT RAY—‘Some fault’. That is elegantly put.

Mr McCloskey—Pardon?

Senator ROBERT RAY—I thought it was elegantly put that you said, ‘some fault’—though I do not know where the rest of the fault lies. Why don’t you just take total responsibility and I will go back to my other committee?

Senator CONROY—Can you advise us what number of full-time, part-time and casual staff are expected to be employed at the conclusion of 2002-03?

Mr McCloskey—I am not sure that we have any precise figures there. I do not think we would be expecting much change at all from the figure that obtained at the end of 2001-02.

Senator CONROY—Could you take that on notice and come back to us?

Mr McCloskey—Certainly.

Mr Meehan—I think it you would be around 35,000.

Senator CONROY—About the same. What was it last year?

Mr McCloskey—At the end of the last financial year we had a total of 35,762 employees, 26,950 of whom were full-time and 8,812 part-time.

Senator CONROY—Roughly the same number?

Mr McCloskey—We have no reason to believe that it will vary greatly.

Senator CONROY—What is Australia Post’s current policy on staffing levels? Do you have any planned changes going into the future?

Mr McCloskey—We have no particular programs in place.

Senator CONROY—Not like Telstra, which has to get rid of 3,000 workers next year?

Mr McCloskey—Certainly not. Obviously there will be fluctuations up and down depending on the demand for employment.

Senator CONROY—Currently there is a dispute before the Industrial Relations Commission between you and the CEPU over the issue of dedicated outdoor delivery. It is a national dispute. I understand that Australia Post's intention is to seek to trial this concept—dedicated outdoor delivery—across Australia. Is there no-one in the building who knows anything about that. Is someone coming to the table? No?

Mr McCloskey—We would have to take that one on notice.

Senator CONROY—So no-one knows anything about it? I understand it is a fairly major dispute.

Mr McCloskey—There are issues before the IRC involving Post on a regular basis. We do not have anyone who is across the issue.

Senator CONROY—Are you familiar with the dedicated outdoor delivery concept? You are trialling it. You are doing it!

Mr McCloskey—We are a very big organisation.

Senator CONROY—I appreciate that 35,000 is a lot of employees. What position do you hold? Apologies for my ignorance.

Mr McCloskey—I am the corporate secretary.

Mr Meehan—We believe that it has been trialled, but we are not sure of any major focus about how it is going to be implemented, if at all, in the future. That is the only information we currently have, but we can certainly take that on notice.

Senator CONROY—My understanding is that the evidence given to the IRC is that you do intend to try and take it national. I am just trying to confirm evidence given by your organisation before the IRC.

Mr Meehan—Sorry, I cannot answer that.

Senator CONROY—Is it possible to find out a bit about it? We can move on to some other questions.

Mr Meehan—Certainly. We can do that.

Senator CONROY—I am very interested in this issue. Perhaps someone can get some information about it over the next half an hour or an hour. I do have a whole string of questions about the dispute and what is involved in it. I understand that it has been adjourned at this stage, so it is not happening right now. But it has been lodged, there have been some discussions and there are meant to be discussions pending. If someone could find out about it that would be good.

Some of your management in Melbourne seem to be getting particularly interested and involved in the union elections that are taking place down there. Is anyone from Melbourne here?

Mr McCloskey—We are from Melbourne.

Senator CONROY—Excellent. I understand that Australia Post complained about one of the union officials being given access to Post sites and sought an agreement from the union to

have Steven Booth banned from a number of mail centres. He is an official of the union. Are you familiar with that?

Mr Meehan—No.

Mr Lee—We have just sent Mr Sinclair out to answer the other question. Can we take that one at the same time?

Senator CONROY—Sure. There is a particularly eager Post official named Mr Andrew Bowmeister—does that ring a bell for anyone?

Senator MACKAY—Yes.

Senator CONROY—It rings a bell for Senator Mackay.

Senator Alston—Is he a union official?

Senator CONROY—No, he is a Post official. He accosted a Mr Adam Cooper in a car park at Mulgrave—it is a public car park, where people park to access your retail shop—and he asked him to leave the car park. Are you familiar with this at all? In actual fact, he called the police and had the police remove him. He was sitting in his car in a public car park.

Mr McCloskey—No, I am not familiar with that incident at all.

Senator CONROY—The incident occurred on 20 May 2003. It was at the Mulgrave facility at about 5.15 in the morning. He was in the car park which is used to access the retail shop as well as a couple of mailboxes.

Senator Alston—There would not be too many retail shops open at 5.15 in the morning.

Senator CONROY—People have public access to this particular car park.

Senator Alston—He was accessing a retail store at 5.15 in the morning?

Senator CONROY—I did not say he was doing that. I said he was in a public car park.

Senator ALSTON—I would like to know what he was doing there.

Senator CONROY—I will come to that. He is a candidate in the union elections, so he was actually there seeking to canvass the staff of Australia Post, if that is okay with you—it is a perfectly democratic exercise of his rights. Mr Bowmeister did not agree that he could park there and threatened to call the police, to which Mr Cooper replied, ‘Go ahead.’ At about 7 a.m. there was a knock on the window of his car and the manager, accompanied by two police officers, explained that his right to be there had been revoked and that, if he did not leave immediately, he would be arrested for trespassing—in a public car park. Of course, he complied, faced with the prospect of being arrested. He waited until 7.30 outside the car park to talk to members. At approximately 7.20, Mr Bowmeister stood outside the roller doors with a pen and paper to take down the names and details of any individual who came out to talk to him. This just seems to be a little over the top—or is it Post’s position to interfere in union elections?

Mr McCloskey—I have no information whatsoever on that particular incident, but I am happy to take the question on notice and seek some information.

Senator CONROY—That would be most helpful. I do not think he was accused of causing any disruption. It was 5.15 and there was nobody around. He was just sitting in his

car, basically, resting and waiting for the change of shift. Banning Steve Booth, who is the union official, from sites and throwing people out of public car parks seems to be a little over officious by Australia Post's Melbourne operation. I know you are keen to get the incumbent re-elected, but this seems to be carrying it a bit far.

Mr McCloskey—As I said, I am not familiar with the instance and I am happy to get information on notice for you.

Senator CONROY—If you can come back to me, I will come back on some of those other matters.

Senator MACKAY—I just wanted to ask a final question on the kits. Are you saying that PM&C never actually inquired from Australia Post whether there were any kits that had powder in them and that were dangerous?

Mr McCloskey—I am not aware that they did inquire.

Senator MACKAY—You have the Attorney-General issuing all these instructions, this huge controversy about potential occupational health and safety issues with Australia Post workers, and PM&C never actually asked Australia Post whether any of this had any veracity. Is that right?

Mr McCloskey—I would need to check on that, but I am not aware personally that there was any request. Some kits that were delivered addressed 'Repackaged' may have had powdery substance in them, something like that.

Senator MACKAY—Did anybody from the government or any other agency involved in this ever ask Australia Post, at the end of this saga, whether there were any kits that actually involved the issue of the Camperdown kit? Nobody ever asked you? If they didn't, they didn't.

Mr McCloskey—As I say, I am not aware that the question was asked, but I would need to check and confirm that.

Senator MACKAY—If it was not, it just confirms our suspicions—not with you, but that it was a completely political campaign. That is extraordinary.

Minister, where are you at with the Australia Post Corporation amendment bill? It is Ground Hog Day again!

Senator Alston—We would expect to be introducing it into the parliament in the not too distant future, before the end of the financial year.

Senator MACKAY—Hurrah!

Senator CONROY—Goodness! Can we hold you to that?

Senator Alston—If you will promise to be less obstructionist, you could actually agree to pass the bill. How would that be?

Senator CONROY—If you have not gone to New Zealand by the next estimates, can we hold you to that?

Senator Alston—Reform is not really on your agenda.

Senator CONROY—That would defy the government's mismanagement of the processes in the Senate, but if you are still here and have not gone to New Zealand on your posting, we will hold you to that.

Senator MACKAY—Before the end of this financial year—that is, in the next two weeks. We have two weeks of sitting, so it will be in the next two Senate sitting weeks?

Senator Alston—I would expect so, yes. And the House of Representatives is sitting. Do you realise that?

Senator MACKAY—I know. It will be introduced in the House of Representatives but not in the Senate—is that what you are saying?

Senator Alston—I assume it will go off to a Senate committee, will it not? You can introduce it into the House of Representatives and have it referred to a Senate committee.

Senator MACKAY—It varies, but given that you are the minister and you are in the Senate—on some occasions it can be introduced—

Senator Alston—No, it is not normal practice.

Senator MACKAY—It has happened to me a number of times.

Senator Alston—I know it can happen, but normally we introduce bills into the House of Representatives.

Senator MACKAY—Okay. Then it comes to the Senate—

Senator Alston—If it is inevitable that it is going to be referred to a committee, they can do that before it is introduced—

Senator MACKAY—for the first reading.

Senator Alston—No, before it is introduced into the Senate.

Senator MACKAY—Then it goes to the Scrutiny of Bills Committee.

Senator Alston—You can refer it off to a committee before it is introduced in the Senate.

Senator MACKAY—I understand that. Sometimes the process is different—that is all.

Senator Alston—Yes.

Senator MACKAY—Has the draft legislation been circulated to interest groups?

Senator Alston—That is not the normal practice. We have had consultations, but we do not normally circulate draft legislation.

Senator MACKAY—Consultations with whom, Mr Thomas?

Senator Alston—We have certainly had discussions with Australia Post.

Senator MACKAY—Anybody else?

Mr Thomas—Not on the details of the legislation. We have had detailed consultations with Australia Post on a number of different aspects.

Senator MACKAY—Anybody else on the legislation in the broad?

Mr Thomas—No, Senator.

Senator MACKAY—So only Australia Post—that is it?

Mr Thomas—Yes. We have had some discussions with groups such as the Major Mail Users of Australia about some of the broader aspects of the legislation. Obviously, they were interested in some aspects of the press release, once it was released late last year. We have not gone into the detail with them.

Senator MACKAY—When was the last time you had consultations with them?

Mr Thomas—It would be some months ago now. I could not remember the exact date. It was a general verbal discussion about some of the broad aspects that they were interested in.

Senator MACKAY—Would it have been in February or March?

Mr Thomas—It would have been around that time.

Senator MACKAY—Is the government intending to show the opposition the draft legislation before it is introduced into the parliament, Senator Alston?

Senator Alston—We do not normally do that either. But even though I said that we do not normally show the draft legislation to interest groups, we did in this instance give a copy of the draft bill to Australia Post on 5 May.

Senator MACKAY—Minister, do you stand by your commitment not to deregulate Australia Post?

Senator Alston—I have said that we are not reintroducing the bill that you managed to frustrate last time around. We have announced what measures are to be contained in this legislation. We are very pleased that Australia Post is very supportive of what we propose.

Senator MACKAY—I will ask the question again: do you stand by your commitment not to deregulate Australia Post?

Senator Alston—You had better start defining your definition of deregulation. I am telling you what we are doing.

Senator MACKAY—I would be interested to hear your definition of deregulation. What is your definition of deregulation?

Senator Alston—I am simply telling you what we are doing. If you want me to go through the contents of the bill I will.

Senator MACKAY—Go on then; that would be good.

Senator Alston—The measures include requiring the Australian Communications Authority to monitor quality of service issues and report on Australia Post's compliance with performance standards and enabling the ACCC to inquire into disputes and make recommendations in relation to terms and conditions of Australia Post's bulk interconnection service. The ACCC will be required to make record keeping rules for Australia Post to demonstrate clearly the separation between Australia Post's reserved and competing services. Other measures proposed will benefit small businesses, providing document exchange and aggregation services. In the case of businesses, the proposed amendments will enable the operators of businesses to legally collect mail from their customers and deliver to their document exchange for processing and to deliver any mail from the document exchange back to the customer. In the case of aggregation services, the amendments will enable customers to

legally deliver their mail to the operator so that it can be aggregated with mail prior to lodgment with Australia Post. These are essentially arrangements that have, in practice, operated for many years.

Senator MACKAY—Is that the general content of the legislation?

Senator Alston—Yes, I think so.

Senator MACKAY—Do you want a minute to look at it?

Senator Alston—Yes, they are the key elements.

Senator MACKAY—Are there any non-key elements that we should be apprised of?

Senator Alston—Australia Post have written to me saying that they are very happy with what has been outlined and included in the draft bill. They say that there are some, presumably, lesser aspects that they would like to be further considered and which they say are currently under discussion. That being the case, I cannot give you a final position on those elements. But on all the principal elements Australia Post are certainly satisfied that appropriate, practical safeguards have been included in the draft bill to ensure that the risk of any unintended impacts from the proposed measures are minimised. Australia Post understand that the explanatory memorandum will make it clear that the intent is simply to legitimise current longstanding practice and that the safeguards are designed to ensure that there are no unintended effects.

Senator MACKAY—Is there anything else?

Senator Alston—No, that is all.

Senator MACKAY—What is happening with the coalition's election promise to introduce a postal industry ombudsman?

Senator Alston—We are in the process of implementing that commitment. The first stage was the release of a public discussion paper. We have received 28 submissions. We expect to make an announcement later this year.

Senator MACKAY—Is there any contemplation of one of the options—the industry self-regulation option—which was in the discussion paper? Is that still being contemplated or are you going to go down the ombudsman track?

Senator Alston—Our commitment was to establish a dedicated postal industry ombudsman, so I would have thought—

Senator MACKAY—So that still stands?

Senator Alston—that is what we were in the process of doing.

Senator MACKAY—It is your discussion paper. I am just querying whether you are considering that.

Senator Alston—We will take account of all the suggestions and if there are some aspects that commend themselves that do not interfere with the essential nature of the proposal we would obviously be prepared to consider them sympathetically.

Senator MACKAY—But your intention is to establish a postal industry ombudsman?

Senator Alston—Yes.

Senator MACKAY—I think the chair wants to break now.

CHAIR—Yes, I do.

Proceedings suspended from 4.05 p.m. to 4.20 p.m.

Mr Thomas—Before we start again, I want to say something further in response to a question earlier concerning consultation. We have, of course, as part of the consultation process, talked in detail with the Australian Communications Authority and the ACCC on the relevant aspects as well.

Senator MACKAY—Thanks for that.

Senator CONROY—Can Australia Post advise on the current number of corporate post offices, licensed post offices and community postal agencies?

Mr McCloskey—The latest figures I have are as at 30 June last year, which are the figures that would have appeared in our 2002 annual report.

Senator CONROY—That is almost a year old.

Mr McCloskey—That is correct, but they are the latest figures that I have. They will be updated for this year's annual report. There will not be much change, but I can give you the precise breakdown as of 30 June.

Senator CONROY—I am sure Lindsay Tanner's office has read your annual report. I was just hoping for an update. Can you take it on notice if there is an update. I appreciate the point you made that they will probably be pretty much the same.

Mr McCloskey—In broad terms they will be the same. I am happy to take on notice an update.

Senator CONROY—Where is Australia Post at with its planned franchise outlets?

Mr Jackson—We have been doing some work on a model of franchising which is an alternative to the existing model, which is our licensed post office outsource model. We have been having a look at a number of implementation issues associated with that. We have had a trial going on for some time, but we are looking at some aspects regarding implementation and we have been having some consultation with the CEPU and POAAL on the implementation issues.

Senator CONROY—Do you actually have any franchised outlets running yet? You said you had a trial going.

Mr Jackson—We have had four outlets on trial—one in Victoria and three in Sydney—and they are continuing.

Senator CONROY—What are the targets for franchised postal outlets over the next five years?

Mr Jackson—In a previous committee hearing we indicated we were looking at about 150 outlets. We probably need to confirm, subject to the consultation processes that I just mentioned, the number of outlets and what types of outlets would be involved—whether they would be corporate converted or licensed buybacks rebadged and packaged so they are franchised.

Senator CONROY—You do not really have a number then?

Mr Jackson—We had an indicative number of 150. We would need to confirm that or otherwise, subject to the considerations of implementation and consultation.

Senator CONROY—Can you give us an update on the current number of postboxes in Australia, which was listed at 15,689 in last year's annual report? Are there any programs to reduce the number of postboxes? If so, can Post outline the details of such a program and advise how many postboxes are under threat?

Mr McCloskey—I would have to take on notice an update as to the precise number of street posting boxes that we currently have but, as you say, in last year's annual report it is listed as 15,600-odd. There are no programs in place to reduce the number of street posting boxes.

Senator CONROY—Do you have a principle of maintaining it roughly where it is at the moment?

Mr McCloskey—Broadly speaking, there is often a need to put in new street posting boxes in developing areas and there may be other areas where, from time to time, through underutilisation—

Senator CONROY—What are the criteria for the removal of a postbox?

Mr McCloskey—Normally, if the average yield from a street posting box is less than 25 articles a day, it would be eligible to be considered for either relocation or removal.

Senator CONROY—You will come back to us with a rough number of where you are at now?

Mr McCloskey—Certainly.

Senator CONROY—I want to talk about the Tullamarine mail screening facility. Can Australia Post advise on the current stage of the tendering process for the Tullamarine mail processing facility? Has a tender been awarded to any company yet?

Mr Howard—The last tender process we had closed with no successful tenderer, because we could not find anyone who could comply with the national code of conduct.

Senator CONROY—So there were no bidders?

Mr Howard—There were six tenderers who, in their tender process, were asked to offer compliance with the national code. Each of those contenders offered compliance. In our due diligence process—in other words, our tender review—we could not find that the original preferred tenderer actually could meet the code of conduct. We then reviewed the other contenders and asked them to see if they could come up with compliance and we were unsuccessful, so we closed the tenders.

Senator CONROY—So you are just not going to build it anymore?

Mr Howard—We are looking to see if we can find a range of builders who will comply with the code and offer those for review by the Department of Employment and Workplace Relations.

Senator CONROY—The original completion date for the new state-of-the-art processing centre was in June 2003, which is next month. It sounds like you are running a bit behind.

Mr Howard—It could be up to 15 months behind.

Senator CONROY—Right now you could be up to 15 months behind?

Mr Howard—Yes.

Senator CONROY—So is there a completion date?

Mr Howard—At the moment, we are planning that, if we have contenders who comply, it will take us about eight weeks for us to review the contract for successful pricing, and then it should take somewhere between 12 and 15 months to build. That is our estimate.

Senator CONROY—So you could be anywhere up to three years behind?

Mr Howard—Two years behind.

Senator CONROY—You said that you are 15 months behind at the moment.

Mr Howard—Approximately, yes.

Senator CONROY—And it could be about another five to 15, so 15 and 15 come to 30.

Mr Howard—Yes, roughly that—or somewhere in between, depending on the building type and the progress of the builder.

Senator CONROY—It sounds like it is going really well!

Mr Howard—We are very fortunate that we met the 100 per cent compliance with the guidelines seven months early—in April last year—by actually improving the existing facilities.

Senator CONROY—So you can confirm that the successful tenderer, Hansen Yuncken—

Mr Howard—They were not a successful tenderer. When we did our due diligence—

Senator CONROY—They were disqualified later?

Mr Howard—Yes.

Senator CONROY—So they did successfully tender. You then did further due diligence, so the successful tenderer and the successful runner-up were then disqualified?

Mr Howard—Our term is preferred tenderer. We then go through our normal commercial negotiations to confirm their tender response and draft a contract. So our term is preferred tenderer. In the end, they were not successful, so we call them the unsuccessful tenderer.

Senator CONROY—It is a semantic discussion. We will not waste the time of the Senate on it. But Hansen Yuncken and Baulderston Hornibrook were disqualified for failing to comply with the national code of practice. Is that fundamentally correct?

Mr Howard—That is correct, yes.

Senator CONROY—In fact, none of the tenderers complied?

Mr Howard—We did have one tenderer that we thought may comply, but they withdrew.

Senator CONROY—Did you take legal advice on this?

Mr Howard—Yes, we did.

Senator CONROY—In regard to the Australia Post legal advice on the Hansen and Baulderston bids, was Hansen compliant with the national code of practice for the construction industry?

Mr Howard—Our understanding was that the overall intent of their agreement was compliant.

Senator CONROY—The overall intent?

Mr Howard—Yes. The reason I say that is that not all of the agreements, as you are probably aware, are exactly the same. They usually have a base line of agreement and they vary on builder and union awards.

Senator CONROY—That probably leads me to about a thousand other questions, but I will just move on. So they were compliant in intent?

Mr Howard—Yes—as far as we could see, from a broad legal perspective.

Senator CONROY—So they complied legally?

Mr Howard—No. I am not the lawyer. We asked for general legal advice before we submitted to the department.

Senator CONROY—And the legal advice said that they were okay—generally.

Mr Howard—Generally, yes.

Senator CONROY—It was the department that said they were not.

Mr Howard—The department advised that they did not believe that they complied with the code.

Senator CONROY—But your legal advice said that they did.

Mr Howard—In the general context, yes.

Senator CONROY—Was Hansen compliant with the associated Commonwealth guidelines?

Mr Howard—I am talking about the national code of conduct—no.

Senator CONROY—So they met the national code but they were not—

Mr Howard—No, they did not meet the national code.

Senator CONROY—According to the department. But according to Australia Post they won the tender, and your legal advice said that they—

Mr Howard—Our legal advice assumed that they were generally compliant. We submitted the documents to the Department of Employment and Workplace Relations, who advised that the agreement did not meet the national code of conduct and therefore they were disqualified from being available to be awarded—

Senator CONROY—But it was the department that disqualified them, not Australia Post.

Mr Howard—Their advice was that the code was not complied with. Under our deed of funding arrangements, whomever we award the contract to must meet the national code of conduct.

Senator CONROY—Which department do they get submitted to?

Mr Howard—The Department of Employment and Workplace Relations.

Senator CONROY—So, even if your legal advice says, ‘No, this is fine,’ the department can override you?

Mr Howard—Yes, because it is the department who approves the compliance from our perspective of meeting the funding deed.

Senator CONROY—Did you explain to them your legal advice?

Mr Howard—Yes, we did.

Senator CONROY—Did they see your legal advice?

Mr Howard—Yes.

Senator CONROY—And they disregarded it?

Mr Howard—I can only assume that they took that. But they saw a broader context of non-compliance.

Senator CONROY—A broader context! Can we have a copy of the department’s advice to you where it explained that there was a broader context involved?

Mr Howard—We will take that on notice.

Senator CONROY—You will take it on notice?

Mr Howard—We will have to take that on notice, yes.

Senator CONROY—Take what on notice?

Mr Howard—That we will provide—

Senator CONROY—Are you taking it on notice that you will think about providing it or are you taking it on notice that you will provide it?

Mr Howard—We will provide it.

Senator CONROY—Thanks very much. According to your legal advice, were Baulderstone compliant with the national code of practice?

Mr Howard—We were unsure of the real compliance there. We needed to submit that again to the department for their approval.

Senator CONROY—So that one was a little less clear.

Mr Howard—Yes.

Senator CONROY—On what basis did Australia Post determine that it could discriminate against these two tenderers who both have lawful industrial agreements with the CFMEU? These are agreements that are legal contracts, and you are discriminating against them on the basis of these contracts.

Mr Howard—Under our funding deed—

Mr McCloskey—This is all in the context of funding that has been provided by the Commonwealth to Australia Post to put in place facilities which will allow sustainable 100 per cent screening of all incoming international mail into the future. One of the conditions of the funding deed is quite explicit—that all tenderers for projects to be funded under the deed must comply with the national code of practice for the building industry.

Senator CONROY—Has the minister, the minister's office or the Department of Employment and Workplace Relations been in contact with Post in relation to the project or the terms of agreement which might relate to the project?

Mr Howard—They have, in responses to our requests for advice on preferred tenderers, yes.

Senator CONROY—Has the minister? I am presuming that covers the department.

Mr McCloskey—Our contacts have been with the department, where we sought an opinion as to whether particular tenderers met the conditions of the national code of practice.

Senator CONROY—But I asked if the minister or the minister's office have been in touch with you, not whom you are contacting. I appreciate that you are just going through your normal processes, as required, but the question is has the minister or his office—

Mr McCloskey—Neither the minister nor his office has been in touch with us.

Senator CONROY—Has not been in touch with anyone in Post?

Mr McCloskey—No, they have not.

Senator CONROY—So there is no suggestion of any pressure being brought to bear on Post by the minister or his office?

Mr McCloskey—No, there has been no pressure brought to bear on Post. We of our own initiative submitted the particular EBAs to the department for their view as to whether or not they complied with the national code.

Senator CONROY—And you accept that these are legally enforceable EBAs?

Mr McCloskey—We understand that, but also we believe and we know that we have a legal obligation under the funding deed to make sure that they are compliant.

Senator CONROY—I understand that. I am not trying to blame you. I think we can all see where the blame lies for you guys being nearly 2½ years behind schedule—and we presume that is a fair bit of money you have wasted. How much would you have spent on the tendering process that the department spiked at the end?

Mr McCloskey—The money for that actually comes from the funding deed; it is Commonwealth money given to us.

Senator CONROY—How much money has been wasted by the department? It is not Post money—I accept that. How much money has been wasted by the department in this tendering process?

Mr Howard—By the department?

Senator CONROY—It has just been explained that it is the department's money that pays for the tendering process. How much has that process cost?

Mr Howard—Most of the tendering costs would be my staff, which would be probably two people and a project management firm of two people who do the tender assessment.

Senator CONROY—What is your estimate on that?

Mr Howard—You are talking about something based on staff costs.

Senator CONROY—I got the impression that there was some money being contributed by the department. You said that the money for the tendering process was given over.

Mr McCloskey—The cost to Post would be set off against the funding deed. We receive a certain amount of money from the government under this funding deed over a period of four years and we can account for any expenses that are legitimately—

Senator CONROY—So you must have a rough idea of what you are going to be offsetting.

Mr Howard—I cannot give you an exact figure. I am happy to provide that.

Senator CONROY—Are we talking \$50,000-\$100,000?

Mr Howard—Probably somewhere between \$50,000 and \$100,000.

Senator CONROY—That is just for the failed process so far. You are now engaged in a further process of trying again.

Mr Howard—We are not formally employing anyone at the moment to go through a continuing process.

Senator CONROY—But you are going to have to do that, presumably.

Mr Howard—We will have to do that, yes.

Senator CONROY—Do you have a rough estimate of what this little frolic is going to cost?

Mr Howard—As I said earlier, it will take about eight weeks to go through what are called the trade packages with an approved tenderer before we can award the contract.

Senator CONROY—So far we have wasted between \$50,000 and \$100,000 of Australian taxpayers' money, when your legal advice said it complied with the intent but the department dug their heels in and said no.

Mr Howard—As was said earlier by Mr McCloskey, we are required to have the department approve a national code of conduct.

Senator CONROY—I am not holding you responsible at all. Can I confirm that you are considering the tender of BCG.

Mr Howard—I am sorry, that name is not familiar to me.

Senator CONROY—A firm owned by Len Buckeridge—

Mr Howard—No.

Senator CONROY—who recently stated in a speech to the H.R. Nicholls Society that he had threatened to kill 30 unionists.

Mr Howard—I am sorry, I have no idea what you are talking about.

Senator CONROY—If you find BCG or Mr Buckeridge—and I can refer you to the H.R. Nicholls Society, because apparently in this particular body it is perfectly acceptable to threaten to kill unionists—could you seek legal advice about whether threats to kill comply with the federal government's national code of practice for the construction industry and the associated Commonwealth guidelines, just in case he bobs up on your radar screen?

Mr Howard—The answer is no. Nothing like that has been across my table. I have no idea what you are talking about.

Senator CONROY—If BCG and Mr Buckeridge end up on your desk, you might want to track me down and get a copy of his speech at the H.R. Nicholls Society where he makes these quite extraordinary statements. He probably got a big round of applause down at the H.R. Nicholls Society for it.

Senator MACKAY—Is Australia Post expecting another special dividend for the government?

Mr McCloskey—Our board will consider its dividend recommendation probably at its August meeting.

Senator MACKAY—Have you been asked at this point for the special dividend by the government?

Mr McCloskey—As part of its corporate plan, the board will have given the government an indicative level of dividend that it is anticipating for the current year. In the light of the financial results, it will be considering its recommendation in the normal way in August.

Senator MACKAY—That was not my question. Has the government asked you for a special dividend?

Senator Alston—I am not sure whether that is disclosable anyway. I think it should be taken on notice.

Senator MACKAY—Have you asked Australia Post for a special dividend?

Senator Alston—I haven't. I am not aware that we normally put out press releases on the subject, so I think I would like to consider whether any such request should be made public. I am not aware of any.

Senator MACKAY—You are not aware of anything?

Senator Alston—Even if there is such a request—

Senator MACKAY—That is okay. You are not aware of anything personally?

Senator Alston—No.

Senator MACKAY—On the other hand, I guess you may not be.

Senator Alston—Indeed.

Senator MACKAY—Take it on notice. When you appeared before us in November 2002 you advised that Australia Post intended a further roll-out of the franchise model, with an estimate of 100 corporate outlets and perhaps around 50 LPOs being converted to franchised post shops over the following three years. How many of these conversions have been made to date?

Mr Jackson—I think I just answered that question: there has been no change.

Senator MACKAY—My question is perhaps more detailed than Senator Conroy's.

Senator CONROY—Definitely.

Mr Jackson—No conversions have been made to date.

Senator MACKAY—So where are we at?

Mr Jackson—At the moment we are in a process of consultation with stakeholders and the CPU and POAAL, so we have not proceeded with the roll-out of the implementation.

Senator MACKAY—When is it planned to commence?

Mr Jackson—It is a bit hard to identify specifically because there are a number of considerations we have to go through in terms of implementation, and associated with that is consultation. So at this stage I am not in a position to say exactly when we might be starting to roll it out, because those processes could take some time.

Senator MACKAY—You said it would happen over the following three years. Will you roll it out in three years time or are you looking at a year's time, six months time or two years time? You must be able to give us some indication.

Mr Jackson—I guess that by the end of the calendar year might be a reasonable expectation, but that would be subject to how the consultative processes worked.

Senator MACKAY—I appreciate that. What budget does Australia Post have for this program for the next financial year?

Mr Jackson—We have no specific budget for it. We have made some provision for some capital expenditure, but we have no budget in terms of the cost.

Senator MACKAY—What is the capital expenditure provision?

Mr Jackson—Off the top of my head, it is probably in the order of 15 or something for fit-outs of outlets.

Senator MACKAY—What is the quantum?

Mr Jackson—It is probably in the order of \$150,000 each.

Senator MACKAY—So \$150,000 each for 15 outlets in the next financial year?

Mr Jackson—That is not final, but those are some of the indicative figures we will be looking at.

Senator MACKAY—Have you got any indicative figures for the out years?

Mr Jackson—No, and again that would be subject to the consultative process. You mentioned a ratio. It would depend on the consultation with both those stakeholders as to what the ultimate ratio might look like.

Senator MACKAY—Have you made any changes to your plans for the implementation of the franchise model since November last year?

Mr Jackson—The changes to the plans are in fact what I just mentioned regarding consultation and the involvement of implementation processes. We have not changed the model itself.

Senator MACKAY—Does Australia Post use employment agency staff to deliver mail on previously contracted mail runs?

Mr McCloskey—I am not sure that I understand the question: on previously contracted mail runs, do we use employment agency staff? I would have to take that one on notice.

Senator MACKAY—We are advised that Australia Post has converted contracted mail runs into those operated by temps or staff from agencies. This went to the industrial commission.

Mr McCloskey—I will have to take that one on notice. I had not heard of it. There are quite a wide range of issues, on a national basis and on a local basis, that go to the AIRC all the time.

Senator MACKAY—Are you employing staff from temporary agencies to deliver mail?

Mr McCloskey—As I said, I would have to take that on notice. It depends on the circumstances.

Senator MACKAY—Are you aware that there is a case in the industrial commission between the CEPU and Australia Post with respect to this issue? It has been adjourned indefinitely, pending further consultations between the CEPU and Australia Post.

Mr McCloskey—I am not aware of that particular case.

Senator MACKAY—In Western Australia, Post are using temps to deliver mail.

Mr McCloskey—In Western Australia?

Senator MACKAY—Yes.

Mr McCloskey—I would have to take that on notice and get the information for you.

Senator MACKAY—You have no idea?

Mr McCloskey—As I say, a range of issues can often come up at the local level in particular states that do not necessarily impact at a national level. If it is before the AIRC, it is before the AIRC.

Senator MACKAY—We are advised that, in Western Australia, Australia Post is using temps to deliver mail. Do you know anything about that?

Mr McCloskey—As I indicated, I am not across that issue at all. I would have to take any of those local matters on notice.

Senator MACKAY—This is very unsatisfactory. The questions on notice are: how many previously contracted mail runs are currently staffed in this manner; what is the cost to Australia Post of staffing a run in this manner compared to the cost of employing a contractor; what plans does Australia Post have for the further conversion of contracted runs; what are Australia Post's intentions regarding bringing these positions back in-house; under what conditions would such positions be created; what issues are Australia Post facing in employing staff in totally outdoor work positions; what is the time frame for the resolution of these issues; and how many hours of outdoor work per day are currently being undertaken by the agency staff employed to deliver mail on these previously contracted mail runs in Western Australia?

Mr McCloskey—I am happy to take those questions on notice and get all the information for you, but these local sorts of issues can only be taken on notice. It is a very large organisation. We have 35,000 employees.

Senator MACKAY—So is Telstra and, to be frank, they do better than this. We have a situation where you are not even sure about the budget figures. Can Australia Post provide an update on its relationship with the Licensed Post Officers of Australia?

Mr Jackson—Licensed Post Officers of Australia is a body which represents a number of licensees. We have a relationship with the Post Office Agents Association Ltd; we have a consultative agreement with them. There is no official standing in terms of the Licensed Post Officers of Australia.

Senator MACKAY—Is it the case that, even after the minister's 2001 letter requesting better consultation between the LPOA and Australia Post and the subsequent Deacons report into Australia Post consultative arrangements, Australia Post still does not have an effective consultative relationship with the LPOA?

Mr Jackson—Following the letter to the minister and following on from the Deacons report which we commissioned as a result of that, we have established a very extensive consultative process called a licensee advisory council structure, which is a best practice structure in terms of franchise operations. We invited LPOA—which is the Licensed Post Officers of Australia Ltd—to be a party to that at the outset. We have now held state based licensee advisory council meetings, we have held one national meeting and we have a second national one next Monday and Tuesday. We have instituted the key recommendation of the Deacons report to establish a licensee advisory council structure and we have in fact invited LPOA to be a party to that.

Senator MACKAY—So you would regard that as an effective consultative relationship?

Mr Jackson—Certainly. It will mature. We have an extensive list of items for the agenda next week which has been solicited through the state based licensee advisory council processes. From discussion with licensees advised in the national advisory council, everybody is very optimistic and very excited about the venture and they believe it will add a lot of value to the consultative processes with licensees in general and specifically LPOA has told me similar things.

Senator MACKAY—What representation of licensees is there in it?

Mr Jackson—We have set up an interim licensee advisory council—I will call it an LAC—where we have nominated participants and that is where we invited LPOA as well as POAAL to have membership. What we will be doing within the next six to eight months will be to have an election process, so licensees will be able to elect their representatives. We wanted to get an interim process going in the initial stages because of the Deacons recommendation and we wanted to institute some processes in a formal way where we can enhance the consultative processes.

Senator MACKAY—How will this ballot occur?

Mr Jackson—The forthcoming one?

Senator MACKAY—Yes. Who will represent the licensees?

Mr Jackson—There will be nominees and there will be elections. We have not worked out the detail. We will be discussing those things as part of the current LAC process.

Senator MACKAY—How will you have elections? Who will vote?

Mr Jackson—All the licensees in Australia will be eligible to vote. In the interim, on the national LAC we have a state representative and we have three direct nominees. Those state representatives are one person from the state LACs.

Senator MACKAY—So you have the LPOA on the interim one?

Mr Jackson—Yes.

Senator MACKAY—And you have the POAAL on it?

Mr Jackson—Yes.

Senator MACKAY—Then there is going to be a ballot in which you will ballot all of the licensees in Australia.

Mr Jackson—Yes.

Senator MACKAY—For one person or for an organisation?

Mr Jackson—No. We will be calling for nominations and then people will elect representatives from those nominations.

Senator MACKAY—How many?

Mr Jackson—Nationally there are nine and from memory the states are six or seven licensees.

Senator MACKAY—Per state?

Mr Jackson—Yes.

Senator MACKAY—Who will be conducting this ballot?

Mr Jackson—Australia Post will facilitate it.

Senator MACKAY—Really? Why would you not go through the Electoral Commission?

Mr Jackson—We will facilitate it. We have not worked out the details of it yet but it would be our intention to facilitate it.

Senator MACKAY—Why are you going for a ballot of this nature, rather than representational?

Mr Jackson—We feel that it gives a greater opportunity for people to have a consultative process right across the entire licensee network rather than having individual groups where small numbers of groups are represented. That was the representation of the Deacons report which was modelled on a best practice franchising process.

Senator MACKAY—Will licensees on the council be individual licensees or will they be representative licensees?

Mr Jackson—They will be individuals on the council as such but, if they represent a group, I guess they can gain insight into issues from their fellow members.

Senator MACKAY—What do the licensee organisations say about this?

Mr Jackson—They have been very positive about it so far and are prepared to give it a go. A lot of the machinery will be worked out at forthcoming meetings in terms of how it all works.

Senator MACKAY—Okay; I will watch this space. Is it the correct that Australia Post has reviewed the payments made to licensees in South Australia and the Northern Territory?

Mr Jackson—There is no specific state based approach to reviewing payments. There have been a number of disputes for some mail related payments made to licensees over a period of time. Our approach was that we need to have a look at that to make sure the interpretation of the payments is correct as per the agreement and if there were underpayments or overpayments then they would be adjusted accordingly on a consistent basis.

Senator MACKAY—So what has happened?

Mr Jackson—The process started off probably 18 months ago. Different states probably had more to review than others. As I understand it, some states have worked through the majority of theirs and other states are still working through a number of them. There are underpayments and overpayments involved.

Senator MACKAY—So for the states that have worked it through what has the outcome been?

Mr Jackson—I do not have the specific details of that, but there have been a number of licensees that have been underpaid and a number who have been overpaid for one of the allowances where there was a dispute about the interpretation of the agreement.

Senator MACKAY—So you will take all of that on notice?

Mr Jackson—Yes.

Senator MACKAY—Is it correct that payments made to licensees in South Australia and the Northern Territory have been reduced by over \$250,000?

Mr Jackson—I could not answer that specifically because I am not aware of the detail. They would be underpayments and overpayments. I am not sure, as I said, how far through the process each state would be. The issue is to ensure that we have a consistent interpretation of that agreement for that allowance so that it can be applied fairly across the network.

Senator MACKAY—Which allowance are you talking about?

Mr Jackson—It is a mail service payment, which is an after-hours type of payment for when they need to attend early in the morning before the actual licensed outlet is typically open for customers.

Senator MACKAY—What is the issue there that may result in a reduction?

Mr Jackson—Over time there has been misinterpretation of the allowance. I guess it was a little unclear for interpretation purposes. There was some information put around about two years ago which seemed to interpret the allowance differently to what we had applied over a number of years. This caused it to apply to a whole lot of people and the need for all this to be reviewed and brought together in a consistent manner.

Senator MACKAY—Was that because there were a lot of people applying?

Mr Jackson—It was because a lot of people applied based on some information they had been given which was outside the normal interpretation that we had consistently applied.

Senator MACKAY—By whom?

Mr Jackson—POAAL brought forward a different interpretation to what we had always applied.

Senator MACKAY—And what was your view with respect to their interpretation?

Mr Jackson—We have clarified that since and pointed out very clearly what our position is. We have never changed our position on it. At this stage that position is unchanged and has been applied across the network in a fair and consistent manner.

Senator MACKAY—So did the clarification of your position occur internally?

Mr Jackson—Yes. We have ensured that it has been applied consistently internally.

Senator MACKAY—So what was your problem with POAAL's interpretation?

Mr Jackson—It seemed to pay people for the same amount of work under three different allowances. It was not really confined to the issue of whether the business was open. It was confined to a volume of work rather than an outside of hours allowance. So there is an interpretation issue. It is quite complex, but it would have resulted in people being paid for the same amount of work with a couple of different allowances if their interpretation had been applied.

Senator MACKAY—So what is the remunerative impact of Australia Post's clarification?

Mr Jackson—On the licensees?

Senator MACKAY—Yes.

Mr Jackson—As I said, I would not be able to give you a clear position until we have actually gone through each one and reviewed it, and I am not aware of the position of the ones that are complete, but we can provide you with that. Certainly there are unders and there are overs.

Senator MACKAY—I am advised that 56 had theirs reduced and four had theirs increased, so that is not really unders and overs, is it? It is more under and the odd over.

Mr Jackson—Is that in Northern Territory, as you said?

Senator MACKAY—Yes.

Mr Jackson—I could not be sure, but it could be so in one state.

Senator MACKAY—That is not unders and overs; that is a total change of policy, isn't it?

Mr Jackson—It is certainly a significant ratio.

Senator MACKAY—Does Australia Post intend to undertake a broader review of LPO payments?

Mr Jackson—We are looking at all the mail type related payments and that is one of them. We are looking to see if there is another way we can simplify it so we do not run into these sorts of issues in the future.

Senator MACKAY—Is 'simplify' code for cheaper?

Mr Jackson—No.

Senator MACKAY—So what is the process for your review?

Mr Jackson—The process for the review is that we would draw the line in the sand at a certain agreed point with POAAL. We will engage some consultants—we have been having some consultation with POAAL in recent times about the process—to have a look at this range of payments and come up with some recommendations about how they could bundle them together in a more simplified commercial manner so that we can go forward.

Senator MACKAY—The opposition formally requests an adjournment for five minutes to discuss the issues below the day.

CHAIR—We are going to have a private meeting for five minutes, so there will be a short adjournment.

Proceedings suspended from 5.02 p.m. to 5.06 p.m.

CHAIR—Senator Mackay has a matter that she wishes to raise.

Senator MACKAY—I just wish to put on record the opposition's view with respect to Australia Post's claim to commercial-in-confidence. We have sought advice from the Clerk, and I understand that the committee is not going to take this, so I just want to put our position on the record. The Clerk has indicated very clearly and has advised me to tell Australia Post that as they are dealing with public money they are required to answer all questions with respect to the budget. That is the nature of budget estimates. I also have here resolutions that have been carried from 1971 on clarifying the situation with respect to statutory authorities. I do not agree with the ruling of the chair, and Senator Lundy and I do not agree with the resolution of the committee to accept the advice that it is commercial-in-confidence. We will be seeking further advice from the Clerk, and it is likely that we will be raising this matter in the Senate.

CHAIR—Thank you, Senator Mackay. May I say in relation to that that the basis upon which I have accepted the request of Mr McCloskey not to answer the question is paragraph 8.45 of the committees manual, which says:

Statutory bodies and their members may ask to be excused from providing certain evidence or documents, but it is for a committee of the Senate in the first instance, and the Senate ultimately, to determine whether any such requests will be granted.

This committee has met, and a majority has decided that it accepts the request of Australia Post not to answer this question and provide the information.

Senator MACKAY—Chair, it might be easier to have these resolutions incorporated into *Hansard*, rather than my reading them out, which I could do.

CHAIR—The committee secretary advises that in the opening statement the general thrust of those matters has been included, and that can be reread if you so desire. Before we move to questions, I remind the officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations—

Senator MACKAY—Correct.

CHAIR—unless the parliament has expressly provided otherwise. In this case, the committee has decided that it accepts the grounds put forward for not answering the question, and it is up to the Senate to agree or disagree with that decision if they so desire.

Senator MACKAY—We will do that. Thank you, Chair. Moving right along, having a reduction of payments in South Australia and the Northern Territory seems a bit pre-emptive in that you are contemplating a national review. How will that impact on the national review?

Mr Jackson—It should not impact on the national review at all. What we would be looking to do is draw a line in the sand in terms of the total amount of payments. In fact, the new process will work out a simplified method of payments for that total value. In other words, this should have no impact on it.

Senator MACKAY—In that you are regarding it as a different issue?

Mr Jackson—Because we would be drawing a line in the sand from a position before now if we have still got those adjustments to come through.

Senator MACKAY—Why have you decided to look at the adjustments now, rather than wait for the national review process and consider them in the context of the national review?

Mr Jackson—We are not just looking at them now; we have been looking at them for some time, as I said.

Senator MACKAY—But why have you not put them in the context of the national review? For example, will the line in the sand be drawn after the reduction or before?

Mr Jackson—We would be consulting with POAAL, whom we are obliged to consult on this, but our position would be that it would be largely before all of these are effected; that might be in the pipeline right now.

Senator MACKAY—Can you please outline the new identification procedures for non-business customers wishing to send parcels overseas?

Mr McCloskey—As a result of a direction received late last year from the Department of Transport and Regional Services that our new security arrangements be put in place for parcels carried by air out of Australia, it is a requirement now that individuals produce identification, which can be either photographic identification or signature identification, when lodging those parcels. That information is then recorded and retained for a period.

Senator MACKAY—What payments do LPOs receive for this additional work?

Mr McCloskey—LPOs do not receive any additional payment for it.

Senator MACKAY—Why not? It is additional work.

Mr McCloskey—There are additional requirements, yes, on the part of whomever is receiving it, so it may take a little bit of time.

Senator MACKAY—Therefore, additional work. So you are saying that they are not remunerated for this additional work?

Mr McCloskey—Insofar as parcels are concerned, I think the LPOs—and I say this subject to correction—receive as a commission a percentage of the value of the stamp that goes on that item.

Mr Jackson—That is correct.

Senator MACKAY—In respect of these new provisions?

Mr McCloskey—As a general principle—

Senator MACKAY—In the broad, yes.

Mr McCloskey—they receive a—

Senator MACKAY—I know that. But do they get any extra money for this extra work that you have created for them?

Mr McCloskey—They will get something in that it is planned that there be a price adjustment to reflect the additional costs in relation to air parcels and those security arrangements. It is not announced yet, but it is planned and when that comes through it will flow through in the normal way to LPOs.

Senator MACKAY—When will the announcement be made that there is going to be an increase in postage?

Mr McCloskey—I am not sure of the timing of the announcement, but the increase is planned for 1 September. It will be in the order of 50c per parcel.

Senator MACKAY—And the 50c is broadly designed to cover the additional costs et cetera?

Mr McCloskey—To cover the additional costs incurred as a result of the new security arrangements. That is right.

Senator MACKAY—Thank you for that. Has Australia Post ballparked the cost to it of implementing these new security arrangements?

Mr McCloskey—Yes, we have. Our estimate is that on an annual basis the additional costs—and this would include licensees—are in the order of \$4.1 million.

Senator MACKAY—What is the value of the postage forgone on mail that has been delivered to ADF members deployed overseas as part of peacekeeping or other activities? Are you able to answer that?

Mr McCloskey—My understanding is that the Department of Defence reimburses Australia Post for the concessional mailing arrangements that are in place for personnel who are serving overseas and so there is no revenue forgone for Australia Post as such.

Senator MACKAY—So PM&C picks up the tab?

Mr McCloskey—No, the Department of Defence.

Senator MACKAY—Defence picks up the tab, sorry. Where was the decision made to provide this free, or heavily subsidised, rate of postage? Who made that decision?

Mr McCloskey—The decision would be one made by the Department of Defence. I have been corrected. It is the Australian Defence Force, not the Department of Defence.

Senator MACKAY—The ADF?

Mr McCloskey—Yes.

Senator MACKAY—Are they empowered legislatively to make decisions like this?

Mr McCloskey—I assume so. Basically they negotiated an arrangement with Australia Post for the arrangements under which mail will be carried to members of the defence forces serving outside Australia.

Senator MACKAY—So they make that decision and PM&C picks up the shortfall?

Mr McCloskey—No, it is ADF or—

Senator MACKAY—Sorry, the ADF.

Mr McCloskey—I am not sure technically whether it is ADF or the Department of Defence, but one or other of them reimburses Australia Post.

Senator MACKAY—So how does Australia Post bill the ADF? What is the process for the cost?

Mr McCloskey—I would have to take on notice the technical arrangements that are in place for that.

Senator MACKAY—What about LPOs in all this? Is there any impact on the LPOs?

Mr McCloskey—I am not aware of any impact.

Senator MACKAY—The ADF reimburses Australia Post in some form—a process that we do not know yet. What about the LPOs?

Mr McCloskey—I am not sure that there would be any impact on an LPO.

Senator MACKAY—What I am getting at is: how do the LPOs get reimbursed from the ADF?

Mr Jackson—I am not aware specifically of that treatment.

Senator MACKAY—Is it right that LPOs get paid for sending parcels currently?

Mr Jackson—They get commissions in terms of their stamps, so when there is payment of postage on articles they get a certain percentage of that.

Senator MACKAY—So now you have a whole lot of parcels that have been sent free or heavily subsidised and the tab has been picked up by the ADF. What happens to the normal remuneration the LPOs would get?

Mr Jackson—I am not aware of the detail of that.

Senator MACKAY—Do they get it still? Do they get a kick-in from the ADF?

Mr Jackson—I am not aware of it.

Mr McCloskey—I imagine that we would be talking about a relatively small number of parcels in the case of any individual office.

Senator MACKAY—But the answer is they obviously do not. Australia Post gets some money from the ADF process, yet undetermined, but the LPOs do not get recompensed, it seems.

Mr McCloskey—We would have to take that on notice and get back to you on that one.

Senator MACKAY—At the last Senate estimates Australia Post were asked in relation to the DFAT discussion paper and the commitments on the supply of small letters—this is

GATS—whether they were aware of the kind of commitment requested. Mr Jackson, I think you answered these questions.

Mr Jackson—Not GATS.

Senator MACKAY—Who answered GATS when we had estimates in Melbourne?

Mr McCloskey—It was Mr Grosser.

Senator MACKAY—Who is not here.

Mr McCloskey—Who is not here today, no.

Senator MACKAY—I will put it on notice. Is it correct that many LPOs have received an overpayment of their MSP, or mail sorting payment?

Mr Jackson—There was an error 18 months ago in terms of the calculation for that payment based on an hourly rate. It was when the GST was implemented. The GST had been applied incorrectly. There were a number of licensees—I cannot remember the exact figure, but it would probably have been about 10 per cent of all licensees—who had been overpaid.

Senator MACKAY—And you are making them pay it back; is that right?

Mr Jackson—A majority have paid it back. There were arrangements put in place for them to pay it back. Some of the amounts were very small. Where the amounts were not small and the licensees had specific hardship issues we had special arrangements put in place so that they could pay it back over a long period of time.

Senator MACKAY—What was the process for the recovery of the overpayment?

Mr Jackson—The process was that our field people notified them of what the overpayment was and gave them the option of paying it back in one lump sum or discussing a satisfactory means of repaying it over time. I believe a lot of it has been repaid. There are probably some licensees still to repay it over time.

Senator MACKAY—How did this occur? It was a GST miscalculation, but what precisely occurred?

Mr Jackson—When the GST came in we had a whole lot of changes we had to make in the payment systems and there was a very complex set of applications for different aspects of the business. I understand there was an error in the GST being applied twice on this rate.

Senator MACKAY—How did that happen?

Mr Jackson—The situation was reasonably complex because—

Senator MACKAY—As is the GST.

Mr Jackson—we had to treat things differently in different parts of the payment scheme. Two people had to work for almost 12 months on actually going through the whole lot of the payment processes. This must have slipped through the cracks, you might say.

Senator MACKAY—It is a pretty bad error, isn't it?

Mr Jackson—Yes.

Senator MACKAY—So you have taken steps to ensure that this does not occur again?

Mr Jackson—Yes.

Senator MACKAY—What about LPOs who left the industry in the interim?

Mr Jackson—LPOs who had left by the time we discovered it we have not chased up.

Senator MACKAY—On the basis that it would be too hard to get the money back?

Mr Jackson—Yes.

Mr McCloskey—I would like to correct some evidence that was given earlier by Mr Howard—and it would be good if this could be drawn to the attention of Senator Conroy. The evidence was in relation to the facility at Tullamarine. Mr Howard said that his recollection was that Hansen Yuncken, the preferred tenderer, was assessed under our legal advice as being broadly compliant with the code of practice. In fact his recollection was not correct. Our legal advice, both internal and external, was that they were noncompliant and we referred the matter to the Department of Employment and Workplace Relations for confirmation of that. They subsequently confirmed our understanding that the EBA of the firm in question was in fact noncompliant. I would appreciate it if that could be drawn to Senator Conroy's attention because he had a particular interest in that evidence. I apologise for any inconvenience caused by the evidence that was given previously.

CHAIR—Thank you. I thank Australia Post for appearing. I call the Australian Communications Authority.

[5.29 p.m.]

Australian Communications Authority

Senator MACKAY—What are the limitations to the powers that the ACA has with respect to information it can request from Telstra to verify mass service disruption notices?

Mr Shaw—It is fair to say that we have very wide-sweeping powers for information gathering. As long as they relate to our powers and functions, they are probably unlimited.

Senator MACKAY—I am a bit confused because at the November 2002 estimates Mr Haydon from the ACA said:

There are some quite severe boundaries around the kind of assessment that we can make without being part of the management team of Telstra.

Mr Shaw—If you are referring to our general powers of information gathering, we can under powers in the Telecommunications Act seek information. There are separate provisions that relate to the way in which the arrangements work. As you may be aware, new arrangements have been put in place in relation to how MSD operates. We do not as a matter of course verify each of the MSDs that come to us, but we are very concerned to make sure that the information and the basis on which those MSDs are being claimed are correct. So we have in train an audit process that we will be commencing in the next couple of months.

Senator MACKAY—Run me through that.

Mr Shaw—Effectively we will be going to do an audit of Telstra's processes. We will be going out to tender for an appropriate organisation to undertake that audit on our behalf.

Senator MACKAY—Excellent. When will that happen?

Mr Shaw—We are just scoping that at the moment. I expect that we would be going out to tender within the next six weeks—certainly before the end of this calendar year.

Senator MACKAY—Can you give me an idea what the terms of reference for the consultancy will be for the review?

Mr Shaw—I have not seen those terms of reference myself. I could bring an officer to the table to give you that information.

Senator MACKAY—That would be very helpful.

Mr Neil—The ACA have developed a program of audit processes for a number of the data collections that we do as part of our ongoing work. In relation to MSDs, I will correct something that the chairman said earlier. We have in fact already tendered for an audit on the processes of both Telstra and Optus on the exemption provisions under the customer service guarantee, which is commonly known as MSD provision. That process should commence at the end of this month or the beginning of next month. We have already put a tender out and made decisions about the tender. Tony was probably referring to some broader activities that we are undertaking with respect to CSG later in the year.

The scope of the audit is to determine whether Telstra and Optus have documented systems and procedures designed to meet their obligations under the CSG standard in relation to declaring an exemption. It will examine Telstra's and Optus's management of their systems and procedures to ensure that they are consistent with obligations under the standard, licence conditions in relation to determination of circumstances that are beyond the control of the CSG, the definition and extent of directly and indirectly affected customers to which the exemption relates and identification of the geographic area affected by the exemption. We will also check that Telstra and Optus are notifying their customers correctly within the CSG standard and time frames.

Senator MACKAY—You are saying that has already gone out to tender.

Mr J. Neil—Yes, we are in the process of selecting a consultant to assist us with the process.

Senator MACKAY—So what is the time frame for the review in the consultancy provisions?

Mr J. Neil—I am not absolutely sure how long it will take, but we have started now. I think it is a process that we would expect to complete by, say, September—probably earlier than that. September seems a long time.

Senator MACKAY—So that is regarded as a priority by the ACA?

Mr J. Neil—Yes, it is the second of some audit activities that we have programmed.

Senator MACKAY—What has prompted this?

Mr J. Neil—We have had a number of issues over time—the validity of data has been a matter that has arisen from time to time. We are aware of the degree of political interest and community interest in such things as the mass service disruption arrangements and the exemption provisions. So it would be fair to say that we have brought some of these issues further up the priority list. In the couple of years that I have been involved in the ACA there

have been issues about data integrity and things that we have followed up by other means over time, but we have decided to take a more strategic approach to auditing some of the activities over the next period.

Senator MACKAY—Is the authority open to suggestions from interested stakeholders about further issues that the review may encompass?

Mr J. Neil—We are interested in the views of stakeholders on any and all matters related to our work. If somebody had some views we would take them into account.

Senator MACKAY—So, if I were to provide some issues to you, would you take them into account?

Mr Neil—We would certainly consider how they fitted into what we proposed to do.

Mr Shaw—If there is any information that could help us with our work, we would be very pleased to receive it.

Senator MACKAY—There are a lot of concerns, of mine and of the Labor Party. I am just trying to help here. You do not have to pay attention to me if you do not want to. With respect to the new network reliability framework, which the government described as groundbreaking and able to identify the works performing telephone exchange areas, can you advise why five months into the program all we have is a two-page release?

Mr Shaw—There is information at level 1 which has been published by Telstra. That is on their web site. Part of the arrangement is that they put this information out themselves.

Mr J. Neil—We are in the process of preparing material to go into the next *Quarterly Performance Bulletin* which will discuss the first three or four months of operation of the network reliability framework and the performance at levels 1, 2 and 3 of that framework in some detail.

Senator MACKAY—When will this be?

Mr J. Neil—The quarterly report will be released by the end of next month. Our normal practice is to release the reports towards the end of June, September et cetera.

Senator MACKAY—So we will be looking for the first one at the end of June?

Mr J. Neil—Yes. That is when the first report will go public.

Mr Shaw—That will be a comprehensive assessment of the information that was available to us at the time we went to press.

Senator MACKAY—We had a release in February from the ACA on the January performance. Not much seems to have happened.

Mr Shaw—There is separate information, which is available on Telstra's web site.

Senator MACKAY—Why is it not on your web site?

Mr Shaw—Because it is Telstra's data. It is too early at this stage to identify trends with that information. Once we get more detailed information as the months go by we will be able to draw some conclusions or observations from it.

Senator MACKAY—All we have on your web site is, 'Telstra reports more than 99 per cent of services fault free.'

Mr Shaw—Telstra provides a report for each of 44 regions, which is all on their web site.

Mr J. Neil—They publish on their web site monthly. We have chosen not to comment on every single one of those reports. We will do a summary of what we see in that information, as I stated before, in our regular *Quarterly Performance Bulletin*. It will also include information about the other two levels of activity under the network reliability framework where we look at the performance of Telstra, at the exchange service area level and at the individual service level. So, where the number of faults on a service passes the set threshold, the ACA gets information and has the ability to assess and address the remedial action proposed by Telstra and comment on it and can call for remediation plans in relation to both individual services and exchange service areas. In fact, we have already asked Telstra for remediation plans in relation to two ESAs as a result of that work: Berry in New South Wales and Casuarina in the Northern Territory. We have been assessing reports that we get. Under level 2 we get reports monthly on performance at the ESA level and under level 3 we get fortnightly reports on individual services which have exceeded the fault threshold specified under the framework.

Senator MACKAY—So what is available publicly?

Mr J. Neil—As I say, come next month we will do a summary report of the information that has been provided to us and actions we have taken in relation to that material under levels 2 and 3. Under level 1, as was indicated earlier, Telstra is required to report its overall performance against the number of services that are without fault and the service availability percentages on a continuing basis.

Senator MACKAY—You talk about the information on the Telstra web site. Have you had a look at what is available on the Telstra web site?

Mr J. Neil—Yes, and they provide it to us informally each month as well.

Senator MACKAY—What is on it?

Mr J. Neil—They provide a listing for that month.

Senator MACKAY—Are these two graphs I am holding up on it?

Mr J. Neil—As I understand it, they also provide a table of performance percentages for the 44 areas. I have not looked at it since they showed it to us.

Senator MACKAY—Did you check?

Mr J. Neil—I have not looked at it. They showed us what they were going to put up and my understanding is that, apart from the charts, there is a tabular version which tells you what the percentages are.

Senator MACKAY—Where does your web site say, ‘If you want this information—

Mr J. Neil—I do not know if there is a link on our web site back to the Telstra information.

Senator MACKAY—Why on earth wouldn’t there be? If you are saying to me, ‘Senator, go and check the Telstra web site,’ where does your web site tell people to go and check the Telstra web site?

Mr Shaw—The arrangements were for Telstra to make this information available; that is the obligation on them under the licence conditions.

Senator MACKAY—What rocket scientist is going to work that out?

Mr Shaw—I am just saying that that is the obligation.

Senator MACKAY—I know that, but you are the ACA. For goodness sake, you should be telling people.

Mr Shaw—We could have links to lots of web sites and we could certainly look at making sure that there is a cross-link. As we develop these arrangements—we are only four months into it—and as we have some analysis there of course we would want to cross-link to some of the raw data, which we will do.

Senator MACKAY—Will we know from the report that you have referred to, Mr Neil, which are the worst performing exchanges?

Mr J. Neil—We will provide information on those ones which we have sought further information on. We are not planning to list necessarily all of the exchange data.

Senator MACKAY—Why not?

Mr J. Neil—I do not know the degree of interest in that level of detail. There are 5,000-odd exchanges; we were not proposing to release the information.

Senator LUNDY—We are very interested.

Senator MACKAY—We would like the information. Are you going to give it to us?

Mr Shaw—We will be looking, as we work through our analysis, at just what information we think it is in the public interest to make available—recognising that there are commercial issues for Telstra with this data. We will be making that judgment in terms of putting the summary report together that Mr Neil spoke about a moment ago.

Senator MACKAY—Will we know the locations of the worst performing ones? How many locations are you going to list?

Mr Shaw—We have not made that decision.

Mr J. Neil—We have not made those decisions at all. The basic import of this proposed network reliability framework is to deal with the outcomes and effects on consumers by dealing at level 3 with requiring Telstra to put in appropriate remediation plans where individual services are repeat offenders in terms of the standards. So the focus of most of the work and the direct work with Telstra is really at the individual service level. We will report on the number of services that have been affected and, to some degree, the actions Telstra have taken to address those problems. That is our intention.

Mr Shaw—And where we take action using our powers in relation to remediation plans, we will obviously be reporting on those as well. We really have to make those decisions as we look at the data, and we have not had an opportunity of fully doing that.

Senator MACKAY—Do mass service disruptions exempt faults from being recorded under the new network reliability framework?

Mr J. Neil—No.

Senator LUNDY—Are faults with the ADSL services recorded under that framework?

Mr J. Neil—No. This purely relates to the standard telephone service.

Senator LUNDY—Do you record them somewhere else?

Mr J. Neil—No, we do not monitor ADSL faults.

Senator LUNDY—Why not?

Mr J. Neil—It is not part of our charter at the moment. We are looking at developing a broader framework for broadband monitoring, but we are still working on the processes and how we might do that. But at the moment we do not do any monitoring of data services.

Mr Shaw—We recently put out a discussion paper on broadband monitoring and we would hope that the industry itself would put some arrangements in place. We will have some discussions with industry about those, but in the meantime, as Mr Neil says, we are not formally doing it. But we believe there is some community interest in getting some of that information.

Senator LUNDY—I can guarantee you there is a lot of interest. Minister, what do you think about that? Do you think we need to have the ACA doing some broadband service monitoring and data service monitoring?

Senator Alston—I think the path that they have indicated is certainly an appropriate one. Clearly it is much more important, where governments have mandated particular levels of service, to identify underlying problems with the network that there might be so that you can speedily address them. Where you have a service that is out in the general marketplace as a commercial offering—yes, we have an interest, I suppose, in assessing progress on all fronts but it is not the same issue by a long shot.

Senator LUNDY—I would have thought, if you had a strong interest in promoting broadband, you would see the merit of having a regulatory system that supported a quality broadband service.

Senator Alston—I do not know that it follows that we do not have one because we are not monitoring problems with broadband. I think our principal concern is to ensure that there is sufficient competition out there, that any problems in relation to pricing are properly scrutinised by the ACCC and that generally there are no roadblocks to take-up. I think the take-up rates in the last 12 months or so have been pretty impressive and consistent with what is happening in other countries. It does not seem to me that there are fundamental difficulties. You can always do better. Some commercial offerings will be inferior to others and you would expect people to therefore move across, in the same way that, if Telstra has download limits and some other company that has been advertising on the front pages of the daily newspapers has unlimited download and that is a key differentiator for consumers, presumably they would take advantage of that offering. Rather than government simply saying, 'We have a fixed view on download limits,' I think it is more important to ensure that people have a choice.

Senator LUNDY—What is the time frame for the document or report you were talking about?

Mr Shaw—We put a discussion paper out some months ago and we will have to take a decision within the next few months about where we want to go. We are having discussions with industry about their attitude towards voluntary provision of data.

Mr J. Neil—We have also written to the Australian Communications Industry Forum seeking a code on the provision of information to consumers about broadband services and trying to standardise descriptions et cetera. That follows on from the discussion paper. We are now looking at some other possibilities, given that the ACCC has been given some responsibilities in relation to reporting on broadband availability and so on. We are talking to the ACCC about whether we could work with them perhaps to get some information about performance as well. That is another possibility we are currently exploring.

Senator MACKAY—Is it normal practice for the authority to provide Telstra with copies of its telecommunications reports prior to the release of their reports?

Mr Shaw—It depends. Indeed, this is a vexed question that we have grappled with over the years. We have had periods when we have provided no access, and at the moment we make decisions on their merits. With some reports, like our performance monitoring report, we might give them 24 hours notice so that they can prepare for any questions they might get from the press.

Senator MACKAY—That would be on an embargoed basis?

Mr Shaw—Indeed. When we do it, it is on an embargoed basis. In other situations where we might have large reports we might extend that by a few hours, but that would be the principle that we would normally follow.

Senator MACKAY—Would you consider giving other interest groups such as the opposition access to press releases and statements prior to their release?

Mr Shaw—I would consider it, but I would say no.

Senator MACKAY—When we had evidence from the Telecommunications Industry Ombudsman recently, he said that at some point the ACA was considering doing some work of a meteorological nature in terms of rainfall predictions and so on. He indicated that this was done some years ago but he said that it had stopped. He did not see any difficulties—not that he is a meteorologist, but the Bureau of Meteorology do forward forecasts et cetera—in doing some studies trying to indicate levels of rainfall. The issue here is that, all of a sudden, it rains and there is an MSD. Other than the Sydney deluge recently, rainfall patterns are generally predictable; otherwise, we would not be able to have weather reports every night. Has the ACA thought about doing some more work on that?

Mr Shaw—I am not aware of any discussion.

Senator MACKAY—That is what he indicated. Can you take that on notice? I am curious.

Dr Horton—We would not have the skills or the facilities to be able to do that sort of analysis. In fact, rainfall records are generally based on 50-year moving averages. It is a retrospective analysis, if anything, which gives you the data for any area. I do not think that you can prospectively expect to forecast rainfall and MSDs as a result of that.

Senator MACKAY—The Bureau of Meteorology manage it.

Dr Horton—They can only give a retrospective over 50 years.

Senator MACKAY—Yes, but they say that rainfall is expected X. That is predicated on past history, of course.

Dr Horton—Yes. They can prospectively look at a few days ahead; that is about it.

Senator MACKAY—Why couldn't you look at meteorological records and attempt to track patterns?

Dr Horton—Because we do not have the skills.

Senator MACKAY—Why don't you contract it out and see what happens? Why don't you have a look at it?

Mr Shaw—I suggest that there are more important things that we should be spending our money on than trying to develop a weather-forecasting model.

Senator MACKAY—I understand that, but it is being used with respect to MSD notices routinely.

Mr Shaw—I cannot actually see the benefit that we would achieve in a regulatory sense from the ACA having an expectation that there might be a particular rainfall pattern in the Sydney area in a month's time.

Senator MACKAY—We are seeing an increasing use of MSDs. I congratulate the authority for starting to have a look at it. All I am interested in asking you is that, when you do have a look at it in relation to this consultant, why don't you have a look at whether it is unusual rainfall or whether it has occurred every year or whatever? We have MSDs being arbitrarily used, in my view—that is a subjective view—to circumvent the CSG. I just do not see why you cannot have a look at it.

Mr Shaw—There is no suggestion that we will not be considering whether the MSD notices are being used appropriately by Telstra and that Telstra have followed the rules correctly.

Senator MACKAY—Why don't you just have a look at it in the context of review?

Mr Shaw—If there is evidence that they are using MSDs where there is no other evidence, certainly we would be wanting to have a look at that.

Senator MACKAY—Just take it on board perhaps and see if it is germane.

Mr Shaw—Certainly we will do that.

Senator MACKAY—Back to the issue of the ACA giving Telstra—and I understand that it depends on the circumstances—the information referred to that is available in June, could you give them an embargoed notice of perhaps 24-odd hours?

Mr Shaw—We usually give that to the people who do contribute to that report; it is not to one contributor only.

Senator MACKAY—I understand that.

Mr J. Neil—Our general practice is not to give them that much notice. They only get access on the morning of the release of the report, on most occasions.

Senator MACKAY—Does the ACCC do that?

Mr Shaw—I am not aware of their practices in this area.

Senator MACKAY—I bet they do not.

Senator LUNDY—Do you have anything to do with monitoring the way download caps are administered by carriers?

Mr J. Neil—That would be one of the issues you would want to think about in relation to some sort of broadband monitoring, but I have not got any information on how we might go about that at this stage, even if it were possible.

Senator LUNDY—Was it addressed in your discussion paper?

Mr J. Neil—No. We did not get down to that level of detail in the discussion paper on those issues.

Senator LUNDY—Was it flagged generally in the discussion paper?

Mr J. Neil—I could not swear to that. I do not think it was. I am 95 per cent certain that it was not.

Senator LUNDY—Do you get any complaints about customers not being aware of the download caps or, indeed, how they can be caught by the download caps, depending on the type of content they are accessing?

Mr J. Neil—I do not have any direct information. We do not receive a large degree of consumer complaints in this area, anyway; they tend to go to the TIO of anyone.

Senator LUNDY—The TIO has got a lot of complaints.

Mr J. Neil—I am not aware that we have any substantial number of complaints on this issue, but it is not directly something I would know about necessarily.

Senator LUNDY—Would the TIO raise those issues of broad complaint with you normally?

Mr J. Neil—One of my colleagues is better placed to discuss this than I am, but we have a process of liaison meetings with the TIO on assessing issues that are coming up and where they fall. We do a similar thing with the ACCC as to whether things fall within the TPA or within the telecommunications codes. So we do have regular liaison meetings on what are the hot issues in the consumer area.

Senator MACKAY—Finally, my attention has been drawn to a press release from Minister Alston dated 16 July last year. It said:

At the network level, the NRF will provide data on fault performance at both the regional (field service area) level and telephone exchange (exchange service area) level, with a view to informing consumers about performance levels in their geographic area. Importantly, the NRF will identify the worst performing telephone exchange areas, which will be subject to further investigation by the ACA, and where required, remediation.

Mr Shaw—And it does exactly that. The only question is what is actually available publicly, and that is the question you asked before. It is something that we have got to consider.

Senator MACKAY—So the minister puts out a press release of that information that only the ACA is going to get access to. The minister puts out a press release, which one would assume people would think they would have access to, but it is actually a press release about information that you have got but you are not going to tell people about.

Mr Shaw—We have not said we are not. We are going to provide information to people.

Senator MACKAY—I quote the minister:

.. the NRF will identify the worst performing telephone exchange areas, which will be subject to further investigation by the ACA, and where required, remediation

Are you saying that you might not provide that?

Mr J. Neil—No. But that says that they will be identified to us and we will investigate them. That is what is happening.

Senator MACKAY—That is not why the minister's statement implies.

Mr J. Neil—That is as I understand what you read out. That is what it says. It says that they will be identified and the ACA will take action to remediate.

Senator MACKAY—It does not say, 'P.S. We're not going to tell the public.'

Mr Shaw—But, as Mr Neil has already indicated, where we ask for remediation of plans and other things, which we have already done for two exchanges, as he mentioned, we will be doing that.

Mr J. Neil—We propose to be transparent about what we are doing in relation to our responsibilities under the—

Senator MACKAY—I have to say that I read that and assumed that you would be making that information available.

Mr J. Neil—The level 1 data does give you the field service area and an idea of what performance is like in your particular location. It does not take you down to the exchange service area, but many people will not necessarily know where the 5,000 exchanges are located in relation to their own area.

Senator MACKAY—So the minister should have said, 'Importantly, the NRF will identify the worst performing telephone exchange areas, and it will provide some information to the public.'

Mr J. Neil—It actually identifies the worst performing services, and we are told about them. Telstra is required to remediate them and they are required to tell us about what the remediation plans are, and we assess those plans and we say whether we think they are suitable or they require amendment.

Senator MACKAY—You guys do what you want, but I would strongly suggest to you that the minister's press release does imply some level of public scrutiny.

CHAIR—It would appear that that completes the questions for the ACA, so thank you for appearing.

Proceedings suspended from 6.00 p.m. to 7.21 p.m.

Department of Communications, Information Technology and the Arts

CHAIR—We are now on output 3.1. Senator Lundy will ask some questions.

Senator LUNDY—Can the department provide an update on the TAPRIC program—how much money has been spent to date and what outcomes have so far been achieved?

Mr Bryant—The program has administered funds of \$1.5 million to be spent this financial year. We are on track to spend the vast majority of that amount. If we do not spend it all, the amount will be fully committed. If you like, I can take you through the various elements of that program.

Senator LUNDY—Just whether or not you are achieving the outcomes.

Mr Bryant—Yes.

Senator LUNDY—The answer is yes?

Mr Bryant—Yes.

Senator LUNDY—Specifically, do you have any numbers in relation to working phones for Indigenous Australians—a before and after situation?

Mr Bryant—In respect of that objective, we are now in the process of drawing up guidelines for a community phones program, which we would expect to commence shortly in the new financial year. As part of the evaluation strategy in drawing up that program, we are undertaking research with Telstra, as we will with the communities themselves, to ascertain the number of working phones in those communities and to have a benchmark to evaluate the program.

Senator LUNDY—So you do not know the answer to that question?

Mr Bryant—How many working phones?

Senator LUNDY—If there has been an increase in the number of working phones.

Mr Bryant—We have not implemented the community phones program. As I said, we want to benchmark the number of phones available in those communities at the start of that program.

Senator LUNDY—Can you provide on notice the outcomes and targets achieved so far and give more detail about that particular community phone project and how you intend to evaluate it?

Mr Bryant—Yes. I am happy to do that.

Senator LUNDY—Has the department conducted any further modelling on the effects of recent Telstra line rental increases on Telstra's revenues?

Ms Holthuyzen—No, we have not done any further work on that.

Senator LUNDY—Why not?

Ms Holthuyzen—The government made the decision on the price cap arrangements, and they have been put into place.

Senator LUNDY—So you have no interest—

Ms Holthuyzen—The ACCC has the responsibility to monitor the price cap arrangements.

Senator LUNDY—I take it from that that you have no intention to monitor the effects of that. You will just observe with interest—you approve it and you do not worry about it?

Ms Holthuyzen—The price caps are in place. The ACCC monitors and applies the price caps and determines whether Telstra has met the price caps.

Senator LUNDY—Can the department advise on the current budget figures for revenue from the sale of Telstra in the 2003 budget papers and forward estimates?

Ms Holthuyzen—That is a matter for the Department of Finance and Administration.

Senator LUNDY—Where is the department at with its postal industry ombudsman paper? Has the consultation process finished?

Mr Thomas—I think the minister indicated earlier today that we are still considering the issues. The discussion paper has been responded to. We received 28 submissions.

Senator LUNDY—Chair, could we adjourn for a few minutes to seek clarification from the minister about his availability tomorrow.

Proceedings suspended from 7.26 p.m. to 7.31 p.m.

CHAIR—Tonight, instead of doing DCITA output 3.1, we are going to do DCITA corporate, then NOIE, then 3.1, 3.3, and 3.4 tomorrow morning. We will then go on to the Arts and Sports portfolio.

Senator LUNDY—The agreement is that Senator Kemp will be available on Friday for sport.

CHAIR—We will see where we get—but yes.

Senator LUNDY—I beg your pardon?

CHAIR—I think that will be the case.

Senator LUNDY—That is the agreement. Can we get that confirmed, please?

CHAIR—We will have to see where we go tomorrow with the Arts and Sports portfolio. We have Environment and Heritage on Thursday and, if we spill over, we spill over with Arts and Sport on Friday.

Senator LUNDY—No. The agreement, as I understand it, is that Senator Kemp is available on Friday morning for sport. I would like that confirmed.

Ms Williams—I think that is right. I spoke to him before this was decided.

CHAIR—I am not sure that we should be doing this with the microphones on.

Senator LUNDY—I think that is what everyone understands the situation to be. I am just looking for your confirmation of that understanding.

CHAIR—The secretary of the department understands that Senator Kemp is available on Friday morning.

Ms Williams—I can check that.

CHAIR—So let us proceed.

Ms Williams—Does that mean that all you want tonight is DCITA Corporate Services and NOIE?

Senator LUNDY—No. We may get back to other issues. It depends how long it takes.

CHAIR—So DCITA Corporate Services, NOIE, and officers for output 3.1, at least, probably ought to stay. The others will be flowing through in the morning. Can we proceed now on that basis?

Senator LUNDY—I would like to follow up on an issue which has attracted some attention since the last round of estimates relating to DCITA's web site. I want to start by establishing a timeline of the expenditure on the web site. I refer to the answer to question on notice 109, where a table was provided, listing expenditure in a variety of categories. I want to go through a timeline for that expenditure in some detail and a greater breakdown as to whom that money was paid. That table showed a total of just over \$4 million. The first category provided is tender development/assessment and advertising of some \$71,000. Can you give me the time frame in which that amount was expended?

Mr Morton—We are just trying to pull out the information. We will not be long.

Senator LUNDY—While you are doing that, perhaps I could ask the minister what his view is of his \$4 million web site and whether or not he thinks it is up to scratch for the money the department paid for it.

Senator Alston—Looking back on it, the department concedes that they were probably overly ambitious. There were some supply problems as well. Clearly, I do not think they ever envisaged, when they signed up for this at the end of 2000, that it was likely to cost them anything like the amount that ultimately it did. In fact, I think the final figure was less than it looked like being at one stage. That is small consolation. Nonetheless, probably, to some extent, it reflected the view—that would not be as current now—that there were still enormous opportunities in respect of web site development, probably opening up commercial opportunities for other departments.

Senator LUNDY—That is part of the issue here. I understand there was perceived to be an opportunity for commercialisation of the web site development process and, in part, the cost could be attributed to that strategy. Is that correct?

Senator Alston—Yes, that is my understanding.

Senator LUNDY—Did you share this dotcom fantasy with your department?

Senator Alston—I do not recall the events, so all I can do is give you as best I can the information we have been able to dig out since this matter came to public attention. The project was expected to be completed by March 2001. I was asked to participate in a launch set for 20 June. That launch was postponed, with no reason given. It may be said that it was running behind schedule but there was nothing to indicate any cost overruns. Similarly, the New Connections web site was due to be launched in mid-2001, but it was not finally launched until September.

I received a formal note on 17 January, which was Dr Watt's last day with the department and would certainly seem to be the first occasion on which I was made aware of any cost increase. As a result of that, when I saw the new secretary the following day I specifically asked her to give close attention to the problem—to move to get it back on track. That was followed up with an email from my chief of staff on 1 February which asked for a copy of a KPMG report which had been referred to in Dr Watt's memo. There was also an evaluation

which Craddock Morton was in the process of finalising. We asked for a copy of that as well and we asked for monthly updates on the progress of the project.

As far as I can ascertain—and it certainly came as a great shock at the time—there was no indication given to me or my office of the overrun. That may well be because the department thought that it could control the matter and get it back on track without needing to bring it to my attention. I think it is fair to say they entered into the original agreement and scoped the parameters without seeking approval. I am not being critical in saying that, but simply that this was regarded as a departmental exercise. No doubt there is a lot that goes on in the department that you do not need to trouble the minister about. This would seem to have been an in-house, internal, project which no doubt the department thought they could complete within budget, but as it turned out that was not possible.

Senator LUNDY—Thank you for that, Minister. Can we go to that timeline now, please?

Mr Morton—Yes. Concerning the expenditure on the first category—tender development, assessment and advertising—the tender process was held essentially between 17 June 2000 and 29 December 2000 when the contract was signed.

Senator LUNDY—At the time of signing on 29 December 2000, who was that contact with and what was the scope and description of it?

Mr Morton—The contract was signed with Fujitsu. The scope of the contract was for \$1.765 million and it required Fujitsu to develop a white site which had the basic structure of the web site and the department was required to develop the content for the site.

Senator LUNDY—So the tender development, assessment and advertising process began on 17 June 2000 and cost \$71,000; is that right?

Mr Morton—Actually the request for tender was issued in June 2000 and in terms of that \$71,000 it actually goes back a little bit before that. There was a scoping study on the need of the department to have a web site and what it could deliver. That resulted in a report called the Hiser report and that cost us \$28,000. That was expended on 6 March 2000.

Senator LUNDY—So to kick all this off there was a \$28,000 study which said you have to have a web site. Did you not already have one?

Mr Morton—We had a web site. The Hiser report looked at it from the point of view of functionality and useability and suggested some changes in relation to how it might be constructed.

Senator LUNDY—Was that in an effort to comply with government policy?

Mr Morton—No, that was a process which was running in parallel, but certainly it conformed to what we are required to do under government policy.

Senator LUNDY—There was already a site operating at that time. If this report was prepared not as a result of a new policy or a new objective of the government, what was the justification for getting that \$28,000 report at that time?

Mr Morton—I know this is going to be a bit frustrating, but the problem we have here is that none of us were actually involved in this at the time.

Senator LUNDY—You have had a number of months to prepare an adequate brief. I am sure you expected this moment to arrive eventually.

Mr Morton—We have prepared a brief. I might say that two of the problems in preparing the brief have been that (a) we have not had the people in the department to consult and (b) a lot of the records have been missing.

Senator LUNDY—A lot of records appear to be missing, did you say?

Mr Morton—Yes, I did.

Senator LUNDY—What are you alleging?

Ms Williams—Unfortunately, one of the problems with this has been that the web site process did not keep proper records. That is probably one of the reasons—I am presuming here, obviously—the project did blow out. I think the department itself probably did not realise until fairly late in the piece how far it was blowing out. When Mr Morton came to do his report, he had to reconstruct files that were not in existence. We have had a few problems going back to those days, particularly as the people are no longer in the department.

Senator LUNDY—Can I formally request that all of those reconstructed files be provided to the committee? I put that request formally to you.

Ms Williams—Could we take that on notice?

Senator LUNDY—Yes.

Mr Morton—Perhaps we can go back to the Hiser report. That is the name of the consultant who did the report. That report reviewed the web site from a user perspective and highlighted the need for improvements to the information structure and hierarchy to the navigation and orientation, better structuring of content and labelling, and better presentation. On that basis, it was decided to upgrade the web site. At the same time, there was a growing need to do something as a result of the government imperatives in the area and they tied in.

Senator LUNDY—I will come to that. I want to know whether the minister signed off on the decision to proceed with a request for tender on the back of the Hiser report.

Mr Morton—I do not believe the request for tender went to the minister for approval. I think it was a departmental decision.

Senator LUNDY—Did the Hiser report?

Mr Morton—No, I do not believe so.

Senator LUNDY—Even though you had spent \$28,000 on the department's web site, and presuming the Hiser report recommended significant further expenditure on the web site, that was not taken to the minister's office?

Mr Morton—No, it was not.

Senator LUNDY—Is there anything unusual in that? Surely when the department embarks upon significant expenditure, there is a process by which it at least moves through the minister's office, if not under his nose?

Mr Morton—We would have a number of expenditures as a matter of course which would never go near the minister's office—with contracts, accommodation, various IT purchases and

security. A whole raft of general services in the department would be considered normal departmental operational requirements and improvements and they would just be done on the basis of a departmental decision to do so—within the funds available, of course.

Senator LUNDY—Does the web site in question also contain information about the minister himself?

Mr Morton—The web site in question is a departmental web site. There is a separate web site which contains information about the minister, which is the minister's own site, in fact.

Senator LUNDY—Was that part of the site involved in the request for tender, the scope—

Mr Morton—No, it was not.

Senator LUNDY—So we have the Hiser report and \$28,000 expended. Did you say that was concluded or initiated on 7 December 1999?

Mr Morton—It was initiated at that time and the payment was on 7 December.

Senator LUNDY—So when was that report provided to the department?

Mr Morton—Late February 2000.

Senator LUNDY—Just moving on to the other influences that changed the web site, when did the government—I think it was NOIE—issue guidelines about their requirements for the government online strategy?

Mr Morton—The government released several documents, as I understand it. They released the *Strategic framework for the information economy* in December 1998. They released *Key Priorities for Action* in July 1999. They launched the *Government Online Strategy* on 6 April 2000. In conjunction with those, and over a period of time, the department was developing both its information management strategic plan and its work plan in relation to information management and its online services strategy. Those things were happening over a period of time and conformed with government policy directions.

Senator LUNDY—In relation to the request for tender and the preparation of that, 'tender development assessment advertising' has the figure \$71,000 next to it. Can you just break down that \$71,000 figure for me, please?

Mr Morton—Yes, I can. Acumen Alliance was paid \$8,400 for a tender costing review. Lange Consulting was paid \$4,475 for web site evaluation software and a further \$2,200 for more evaluation software—there were two payments there. As well, there was a second payment to Acumen Alliance of \$4,560. Starcom Worldwide were paid two sums for advertisements for web site tendering; the first was \$14,209 and the second was \$9,101. The Hiser Group, as I said, were paid \$28,825.38. The total comes to \$71,771.

Senator LUNDY—The RFT was advertised on what date?

Mr Morton—The RFT was advertised on 17 June 2000.

Senator LUNDY—Had you incorporated at that stage the elements of the online strategy as required by the government?

Mr Morton—We believe it did, but we have not got the information. We will take that on notice and come back to you on that, but we believe it is the case.

Senator LUNDY—We will just talk about that tender process. You said that Fujitsu won the tender. How many companies tendered?

Mr Morton—I believe 11 companies tendered.

Senator LUNDY—When did tenders close?

Mr Morton—Tenders closed on 19 July 2000.

Senator LUNDY—So it was out there for about a month?

Mr Morton—It was out there for a short period of time.

Senator LUNDY—A very short period of time. Is there any reason why it was out there for such a short period of time?

Mr Morton—I am not aware of the reason why it was such a short period of time. I believe it was an assessment of the project manager at the time that it could be done within that time frame.

Senator LUNDY—Did you have a short list?

Mr Morton—Yes, there was a short list.

Senator LUNDY—How many companies were on the short list?

Mr Morton—From recollection, I think there were three.

Senator LUNDY—What were the distinguishing features of the three companies on the short list, as far as you are aware?

Mr Morton—I am not sure what you mean by that.

Senator LUNDY—Was the response to the tender a fairly standard response? Was the difference in price?

Mr Morton—In relation to the short-listed tenderers, the difference in price was reasonably marginal.

Senator LUNDY—We know Fujitsu won it. Who else was on the short list?

Mr Morton—SeraNova and EDIME.

Senator LUNDY—Did Fujitsu have the lowest price?

Mr Morton—As you know, Commonwealth tenders are not necessarily assessed on the lowest price.

Senator LUNDY—I appreciate that. I am not going to have a go at you if it was not. I am just curious and I do understand there are other factors.

Mr Morton—They did not have the lowest price, nor did they have the highest price.

Senator LUNDY—Do you have any documentation that provides a record of the bid assessment process?

Mr Morton—We do have some records of the process but we do not have them here tonight.

Senator LUNDY—Could you take it on notice to provide them to the committee.

Mr Morton—We will have a look at that.

Senator LUNDY—You said before that that contract with Fujitsu was signed on I think 29 December?

Mr Morton—On 29 December, yes.

Senator LUNDY—The signing price was how much at that point?

Mr Morton—It was \$1.765 million and that included GST and stamp duty.

Senator LUNDY—How does that relate to the table where it says ‘website development \$1.2 million’? What are the other elements within that table that make up the \$1.765 million?

Mr Nicholas—The \$1.765 million was the original contract price as set out from the tender.

Senator LUNDY—How does it fit into the table that was provided?

Mr Nicholas—The tables that we declared with figures totalling \$4 million include all work, including work beyond the original contract.

Senator LUNDY—This original contract signed with Fujitsu at \$1.7 million was the original price, so all of these other additional figures following that \$71,000 figure on the table—that is, the remainder—would total, if you did a fast calculation, something like nearly the full amount.

Mr Nicholas—There are components. The \$1.7 million is split across a number of those categories. There is money within the web site development category. There is funding within the hardware, software, hosting and support.

Senator LUNDY—In this original contract of \$1.765 million, what are the correlating costs, within the table that you have provided, as to how much it cost in the end?

Mr Nicholas—I will provide that \$1.765 million as a GST exclusive figure, if you do not mind. The \$1.765 million is, in fact, \$1,605,724 if we do it GST exclusive and stamp duty exclusive. That is how all the figures have been prepared.

Senator LUNDY—We can do that. I would just note that in the table provided to the answer to the question on notice there is a stamp duty of \$7,369.

Mr Nicholas—Yes.

Senator LUNDY—Is the GST currently included in these figures in the rest of the table?

Mr Nicholas—In response to question No. 109?

Senator LUNDY—Yes.

Mr Nicholas—All of the figures are GST exclusive.

Senator LUNDY—They are?

Mr Nicholas—Yes.

Senator LUNDY—So we are talking apples and apples?

Mr Nicholas—Yes.

Senator LUNDY—That is fine. So we are talking about GST exclusive for those and you are about to give me the GST exclusive for the original contracts across these same categories?

Mr Nicholas—Yes.

Senator LUNDY—Okay.

Mr Nicholas—Under the web site development category, the contract price was \$500,000.

Senator LUNDY—Yes.

Mr Nicholas—Under the hardware category the contract price was \$438,383.

Senator LUNDY—Yes.

Mr Nicholas—Under software, it was \$544,049.

Senator LUNDY—Yes.

Mr Nicholas—Hosting and support services was \$115,923.

Senator LUNDY—Yes.

Mr Nicholas—They add up to \$1,598,355. The stamp duty then adds onto that \$7,369 and it gives the GST exclusive price of \$1,605,724.

Senator LUNDY—What about enhancements on the original contract?

Mr Nicholas—As in the written response, there was no allowance for enhancements.

Senator LUNDY—I want to proceed with the time line at this stage, but then I will come back to detailing the difference in each of those costs. We are up to 29 December 2000. Fujitsu have signed up for a \$1.7 million contract. Between the time of the preparation of the tender, the short list, the selection process and the signing taking place had any changes occurred to the contract, the scope of the contract or the description of services required in the contract?

Mr Morton—I think during the course of signing the contract there were a number of discussions to that end. The contract as actually signed left open a further series of design decisions to be made, so there were discussions during the negotiation of the contract and subsequent to the contract in relation to the design.

Senator LUNDY—Were they reflected in the \$1.765 million price?

Mr Nicholas—Not in our understanding.

Senator LUNDY—So even before this contract was signed there were negotiations under way about enhancement changes. Is that your understanding?

Mr Nicholas—From our understanding, the contract had been agreed but there were still specifications for the design that were being negotiated.

Senator LUNDY—I do not really understand what that means. Are you saying that the specification was not clear, or that it was being added to or being modified?

Mr Morton—It is saying that the contract was signed in the absence of the specification for the design being finalised and part of the contract allowed for that to be settled over the first period of the contract's life.

Senator LUNDY—In settling those outstanding issues, were any additional costs incurred by the department?

Mr Morton—Subsequent to the contract being signed, yes, there were. In fact, a substantial amount of additional cost to the department came from a number of change orders and change requests which were added to the contract during its subsequent life.

Senator LUNDY—I will, obviously, go into great detail, because we know there has been several million dollars worth of changes taking place, but I am just trying to nail down the changes that took place or that were discussed prior to the contract being signed which subsequently had an impact on that price.

Mr Morton—The discussion prior to the contract being signed did not result in a change to the price of the contract, if that is what you are asking. The subsequent changes during the agreed development process after the contract was signed were the episodes which added to the cost of the contract.

Senator LUNDY—So what you are telling me is the department signed a contract that was not finalised, which left the door open for significant additional costs. Is that normal practice? It strikes me as being very odd and putting the department in an incredibly vulnerable situation as far as having the companies actually provide the service they are contracted to provide.

Mr Morton—It does happen from time to time, and at times it can allow for innovation in the contract. For example, in another project with which I was associated, the Acton project, certainly when that contract was signed there was a significant amount of development work that had to be done, and that was done after the contract was signed and during the life of the project. So it does happen from time to time.

Senator LUNDY—That contract was a fixed price, fixed time, was it not, and allowed for flexibility within that fixed price?

Mr Morton—No it was not; it developed a number of target outturn costs for various components of the project during its life.

Senator LUNDY—Yes, but it had a budget cap, and that was well established.

Mr Morton—Certainly the government had allocated a budget to it, but—

Senator LUNDY—Which tends to have a limiting effect.

Mr Morton—Yes, but I would have to say that the Alliance partners certainly did not view that as anything other than an opportunity to try and increase it.

Senator LUNDY—As is their wont, but my understanding is, just to follow this point through, that any subsequent changes or increases in costs within that capped budget came from within their own margins.

Mr Morton—Certainly we kept any changes to the design within the overall budget cost but, technically speaking, it was not capped. There was no agreed—

Senator LUNDY—That is the point, I guess. There was no agreed maximum cost associated with this project, was there?

Mr Morton—No.

Senator LUNDY—On 29 December 2000 Fujitsu were engaged to do the site.

Mr Morton—Yes.

Senator LUNDY—We know already that each of those categories within that original contract had an increase. Can you tell me, proceeding down the time line, when each of those came into effect and how those budget blow-outs actually occurred and why?

Mr Morton—I will certainly try. I am afraid I do not have a total list of all the change orders and change requests. There were a lot of them. But I can certainly provide you with that information.

Senator LUNDY—Yes, please.

Mr Morton—I can do that. What I can do is perhaps canvass a couple of the major change orders where there was a substantial cost increase. I am saying that because a lot of them were for very minor amounts, but there were a couple of significant ones which substantially blew out the cost. The major cost increase related to a change in the hosting of the project and an enhancement of the security environment in which the project was hosted. That resulted in an increase to hosting and support services of \$631,000.

Senator LUNDY—Just on that point, do you have any details on what actually changed with regard to hosting arrangements? The original costs were \$115,000 for hosting.

Mr Morton—That is correct.

Senator LUNDY—Then it went to \$631,000.

Mr Morton—The change in relation to security—

Senator LUNDY—You said ‘hosting’ and ‘security’—were they the same change?

Mr Nicholas—It is the hosting in a secure environment.

Senator LUNDY—Sorry, I thought you said security and then hosting separately. So it is hosting in a secure environment. When did that change order occur?

Mr Nicholas—I believe the hosting arrangements changed from July 2001.

Senator LUNDY—Can you identify a reason for those changes? Obviously, as it is a secure environment, I draw at least a conclusion from that that there was a view formed that it was not being hosted on an adequately secure server. Can you enlighten me further?

Mr Morton—As I understand it, the guidelines were issued by NOIE on Internet systems security and authentication for delivery of government programs, which the project manager took to require an upgrading of security requirements beyond those which were currently available. So she requested Fujitsu to upgrade the hosting arrangement and move from the environment it was in to iSecure.

Senator LUNDY—I suppose we can go back and ask NOIE what guidelines they issued but, again, \$631,000 implies that there were severe inadequacies with the hosting environment prior to that. Are you able to comment on that or make an observation about (1) the massive increase and why that occurred, and obviously Fujitsu were managing that part of the web site, and (2) make a comment on whether the massive upgrade that occurred was

necessary in the circumstances? Just say it plainly; I am just trying to get the facts on the table here.

Mr Morton—I believe it was a judgment call under the terms of both the contract and the NOIE guidelines. I believe that what was required was a risk management approach to security, and I do not believe it was necessary to move to the much more expensive hosting arrangement.

Senator LUNDY—You do not believe so?

Mr Morton—No.

Senator LUNDY—When did you form that view?

Mr Morton—When I reviewed this at the request of the former secretary.

Senator LUNDY—At the time?

Mr Morton—No, this was well after the event.

Senator LUNDY—You could perhaps tell me about your post-review process.

Mr Morton—I should point out that the project manager of the time signed the change order with Fujitsu off her own bat and, as far as I can make out from the paperwork that I have seen, without the senior management of the department being aware that that change order was signed. So, as I say, it was her call. It was a call which, from what I can see, was hers alone, and it is one with which, as I say, I would not have agreed had I been around at the time.

Senator LUNDY—This is very convenient in retrospect. It does not let any of you off the hook, but we can keep going if you like.

Ms Williams—Could I also just add that it was when the department realised at the end of 2001 that there was such a blow-out that the previous secretary asked Mr Morton to review the process, so he came into it quite late.

Senator LUNDY—I gathered that, which is why I have been going through this in such a detailed way, because the story has been built up. I am sure Mr Morton will get to that point at which he had the opportunity to review it, but it is useful to know along the way who was involved in the decision making. Did the increased amount for the secure environment involve any subcontractors? Are we just talking about Fujitsu here.

Mr Nicholas—It was to take it from an unclassified environment to a protected environment. That is the move from the security side.

Senator LUNDY—But that was required by the NOIE guidelines, wasn't it?

Mr Morton—In the view of the project manager, it was required.

Senator LUNDY—Can you tell me as a matter of fact whether that was required under the NOIE security guidelines? When were the NOIE security guidelines issued—you mentioned that date?

Mr Morton—The NOIE guidelines note that agencies operate in a variety of environments and have different risks and that implementing online security guidelines is ultimately a matter of good judgment, that agencies should apply the requirements to the particular

circumstances and accordingly make appropriate risk assessments. As I say, the project manager of the time made that assessment. She made it without consulting senior officers. I believe that had she done so she would have found that there was not agreement with the approach that she took.

Senator LUNDY—As I said, that is pretty easy to say now. I guess we will come to that, because I want to ask you what action you took when you did discover these issues, in retrospect. We will keep moving through the time line. When did you say those NOIE guidelines were issued?

Mr Morton—The NOIE guidelines were issued in late 2000-early 2001. I do not have the exact date here, but they required agency CEOs to formally warrant by 2001 that their agencies complied with Commonwealth security guidelines. There was a period of three or four months there, so it was end of 2000-early 2001.

Senator LUNDY—But you just said the security guidelines said that you should do whatever you reckon is right.

Mr Morton—As I said, it is a risk management approach because different agencies confronted different circumstances.

Senator LUNDY—What subcontractors were involved in that hosting arrangement and security arrangement under the Fujitsu contract?

Mr Nicholas—The contractor iSecure—now SecureNet—is the provider.

Senator LUNDY—Are you aware whether iSecure—now SecureNet—was hosting other government web sites at the time, or was this unusual?

Mr Nicholas—I cannot comment on that.

Senator LUNDY—You have got no idea?

Mr Morton—I do not know.

Senator LUNDY—Moving along, what happened next?

Mr Morton—As I said, we will provide you with the list of the change orders and change requests and the additional expense that they involved, but there are a couple of major ones—

Senator LUNDY—We will go to the big ones.

Mr Morton—Yes. I think the second major expense related to the attempts to commercialise the web site—that is, to sell it to other Commonwealth agencies.

Senator LUNDY—Was that the web site development cost blow-out?

Mr Morton—That was a cost blow-out—

Senator LUNDY—Where it went from \$500,000 to \$1.2 million—is it that one?

Mr Nicholas—Part of it is in there, yes.

Senator LUNDY—Perhaps you had better take me through that and try to relate it to those figures on the table that we discussed earlier so things are nice and clear.

Mr Nicholas—The \$500,000 was basically the milestone payment to Fujitsu to deliver the white site as per the contract. So the \$500,000 was in there.

Senator LUNDY—I have got a bit of an idea what ‘white site’ means, but can you explain further please, for the sake of clarity.

Mr Nicholas—The white site is the basic structure of the site and it required the department to be responsible for the content and the look and feel.

Senator LUNDY—So this is the pretty pictures, the tabs and the links, the graphic environment in which the content sits—is it that stuff?

Mr Nicholas—It is the infrastructure in which it sits and how it operates, and the department is responsible for the look and feel—

Senator LUNDY—So the department does the look and feel. So we are not even talking about pictures and so on.

Mr Nicholas—The contract was to deliver the basic structure of the web site.

Senator LUNDY—Without any pictures?

Mr Nicholas—It left the department responsible for the content.

Senator LUNDY—And without any text?

Mr Nicholas—Yes, the content was the department’s responsibility.

Senator LUNDY—I am just trying to get my head around this. So it cost \$500,000 for a site with no content.

Mr Nicholas—For development of the structure—the structure of the site.

Senator LUNDY—I am reasonably technically proficient, so you might want to test me here. What actually did they do to construct that white site—what was involved? Obviously space on a server, obviously some feedback forms, perhaps some standard code just to make sure there is a degree of interactivity of search engines—keep going.

Mr Nicholas—My understanding was the requirement was to develop and provide that basic structure—the infrastructure, the software, the hardware, the hosting arrangements—and the department was responsible for the content and the migration of that content from the old site and for the look and feel of the site.

Senator LUNDY—So who built the white site? Did Fujitsu build that or was that someone else?

Mr Nicholas—No, Fujitsu did. The contract was to deliver the white site.

Senator LUNDY—And did they?

Mr Nicholas—Yes.

Senator LUNDY—On time? For those listening out there, don’t shrug your shoulders.

Mr Nicholas—In terms of the original contract, no.

Senator LUNDY—They did not.

Mr Nicholas—No.

Senator LUNDY—So they could not even get the site with nothing in it right. Sorry, I am being a little flippant. I know there is some work involved.

Mr Morton—The original contract required the site to be delivered in three months and it was quite a fanciful ask, to be quite honest.

Senator LUNDY—Why? They are all pretty basic tools, aren't they, for site construction, I would have thought.

Mr Morton—At that stage, as I said to you earlier, they had not even finished the design development work.

Senator LUNDY—In three months, they had not finished the design. Does that mean they had not got it off the whiteboard? What does that mean?

Mr Morton—No. When they signed the contract to deliver the site, they still had not agreed on the design development. That process was still going on, but at the same time they were going to finish the design development process and deliver the whole site in three months. As I say, I think that was fanciful.

Senator LUNDY—Fanciful. How long did it take them?

Mr Morton—It took them until July 2002.

Senator LUNDY—Hang on! That is 18 months.

Mr Morton—That is when we released the site with the content. The white site was delivered in September 2001.

Mr Nicholas—The acceptance of delivery of the white site was February 2002.

Senator LUNDY—Which is a blow-out of what—12 months, 11 months?

Mr Morton—It is a blow-out of—

Senator LUNDY—Eleven months. So 11 months later the white site was finally handed over to the department?

Mr Morton—Yes, the department accepted it in February 2002.

Senator LUNDY—Why on earth was that situation allowed to prevail for so long?

Mr Morton—There are a number of reasons: there was inadequate management and insufficient knowledge at the actual project end of things; there was insufficient information flowing to senior management in the department; and, to put it frankly, there were inadequate corporate governance processes in place to pick it up.

Senator LUNDY—So you admit it. To everyone out there it is obvious, but it is quite good to hear from you that there were serious inadequacies in the management of this project.

Mr Morton—I believe there were serious inadequacies in the management of the project, yes.

Senator LUNDY—Good. I am glad you admit that, because you are absolutely right. It is good to see you admit it up-front. During the 11 months wait, at what point was the figure of \$500,000 modified? In the process of developing the white site, did the costs go up from the original \$500,000?

Mr Morton—The costs went up between when the contract was signed and when the site was finally delivered because there were a number of change orders and change requests, which added to the cost.

Senator LUNDY—Still within the confines of just the white site development?

Mr Morton—Yes.

Senator LUNDY—Which were?

Mr Morton—One of them was, as I say, the secure hosting arrangement.

Senator LUNDY—I have a tick next to that one, because we went through that one.

Mr Morton—And another major cost was the commercialisation process.

Senator LUNDY—Can you explain how that increased the cost? Chair, has the minister toddled off for his media interview, or is he just not in the room at this point?

CHAIR—His interview was to be at 8.30 p.m. He will be back.

Senator LUNDY—I did say that was okay from my perspective, and so I will come back to questions for the minister on that point. Ms Williams, perhaps you are in a position to provide a little commentary on what you understand to be the strategy behind the commercialisation of this site at this point in time. You can refer this back to Mr Morton, if you like.

Ms Williams—Yes, Mr Morton is probably the appropriate person.

Senator LUNDY—It is probably appropriate now to explain what was going on with this attempt to commercialise the site.

Mr Morton—Perhaps I can give you a general background to the commercialisation exercise and that will provide a context in which to understand it. The commercialisation within the project of the IP associated with the web site was initially raised during precontract discussions with Fujitsu as early as December 2000. At that stage Fujitsu expressed interest in obtaining the department's assistance in marketing the web site redevelopment project to other government agencies. At that stage it was thought to be a cutting-edge project which everybody would want to emulate.

Senator LUNDY—Indeed. I recall that the times in 1999 were heady days as far as the dot com era goes. I am just a little surprised to see the minister's department getting the bug, so to speak. Or was it Fujitsu's idea?

Mr Morton—Fujitsu believed originally that they had potential to market the project to other agencies and they sought the department's assistance—not financial assistance but assistance in terms of references, speaking engagements and those sorts of things—to push the project.

Senator LUNDY—So that was part of Fujitsu's pitch?

Mr Morton—It was part of Fujitsu's pitch, I believe, yes.

Senator LUNDY—From your memory or in your understanding of the circumstances at the time, was that a factor in the decision to proceed with Fujitsu?

Mr Morton—I do not know. I would have to check that. I have no knowledge of that.

Senator LUNDY—It would be hard to make an assumption otherwise.

Mr Morton—I could not make any assumption on that one, Senator. I would have to go back and have a look.

Senator LUNDY—But it was known at the time of the consideration of the short list?

Mr Morton—The discussions were in September 2000 about the commercialisation, and the contract was actually awarded before then; so I do not believe—

Senator LUNDY—Hang on! Sorry, I thought the contract with Fujitsu was awarded or finally signed in December.

Mr Nicholas—The contract was signed in December.

Senator LUNDY—My point is correct then. The contract had not been signed as yet, at the time that Fujitsu and the department were talking about the commercialisation strategy.

Mr Nicholas—But the decision had been made. They had been selected as the preferred tenderer prior to—

Mr Morton—Prior to the discussions about the commercialisation.

Senator LUNDY—And that decision was made in July, was it?

Mr Morton—The preferred tenderer decision? Yes.

Senator LUNDY—And it was announced when?

Mr Nicholas—The preferred tenderer was announced in September and then the contract was signed formally in December.

Senator LUNDY—Okay. Let's drill down a little there, because I think it is a really important point. Fujitsu were identified as the preferred tenderer in September. Was that made public at that time? Can you give me a date in September, please?

Mr Nicholas—No.

Mr Morton—We would have to go back and get the actual date in September.

Senator LUNDY—All right. You said that that commercialisation strategy was being discussed in September.

Mr Morton—Yes, but once again I cannot match the dates for you.

Senator LUNDY—So you do not know who was—

Mr Morton—I cannot match the dates for you, no.

Senator LUNDY—I think it is reasonable to assume that the contract was at least formally signed with the full knowledge that a commercialisation strategy was afoot.

Mr Morton—Certainly, when the contract was signed it would have been known that there was interest in commercialisation, yes.

Senator LUNDY—If not when it was announced. It could have been known before it was announced or it may have been at a later point in September. Could you take it on notice to provide me with the details of the first point at which the department became aware of Fujitsu's ideas about commercialisation.

Mr Morton—We will take it on notice, but I cannot guarantee that we actually have that information. Certainly, if we have it we will provide it.

Senator LUNDY—Please proceed with the commercialisation—the dotcom vision.

Mr Morton—As I said, it was raised in September 2000. I understand that in October 2000 the commercialisation concept was put to some venture capitalists, and the department then proceeded to open to tender the commercialisation of the project in late January to February 2001.

Senator LUNDY—Hang on—slow down. Venture capitalists were involved?

Mr Morton—As I understand it, the department checked to see whether there was any interest in the marketplace in the commercialisation of this intellectual property that was being generated. I do not have a list of the people it was checked with, but I can see if I can find one. As I understand it, there was a degree of interest, so the department tendered out the commercialisation of the web site after those discussions to see what would eventuate.

Senator LUNDY—So the commercialisation tender was completely separate to the Fujitsu tender and subsequent signing?

Mr Morton—Correct.

Senator LUNDY—Okay. There were discussions with VCs in October 2000. When was the RFT for commercialisation advertised?

Mr Morton—It proceeded to tender in late January to February 2001.

Senator LUNDY—So how long was it out to tender? Do you have the exact dates?

Mr Morton—No, I do not. I will see if we can get those for you but, as I said, late January to February 2001 is the information I have.

Senator LUNDY—And then what happened?

Mr Morton—Only one tender was received, and the department did not proceed because the tenderer did not meet the selection criteria.

Senator LUNDY—What was the scope of that tender? What does commercialisation of a yet to be built white site mean?

Mr Morton—I am not sure. The difficulty I have with this process is that it seems to me from my review that we were attempting to commercialise IP that did not exist.

Senator LUNDY—It is all very well for you to say that now, hands off, but you have an obligation to be accountable for this expenditure as a department—and as a minister. What did the ad for that tender say?

Mr Morton—I do not have that information. I can take that on notice.

Senator LUNDY—Why did you not bring that sort of stuff with you for this hearing?

Mr Morton—I do not know that we have that information at all.

Senator LUNDY—You do not have anything on your departmental records?

Mr Morton—I do not believe so. I have not seen it.

Ms Williams—This is where we do have the problem.

Senator LUNDY—The department paid for this ad, and you do not have a record of it?

Mr Morton—We will have to look for it. In the process of my review, we certainly did not come across the ad, but I will have a look to see if it might be anywhere else in the department.

Senator LUNDY—Do you have any records of the tender evaluation process? Do you have a copy of the RFT? This is just getting absurd.

Mr Morton—I believe we have the RFT but we are having difficulty in finding the evaluation.

Senator LUNDY—This is the evaluation that found that the one tender did not comply. Who was the one tender from—do you know that?

Mr Morton—No, I do not.

Senator LUNDY—You are kidding!

Mr Morton—No, I am not.

Senator LUNDY—It is unbelievable; it is almost farcical. So nowhere in the department can you find a record of from whom the one response was to a departmental RFT.

Mr Morton—We could not in terms of my review.

Senator LUNDY—Perhaps you should advertise, asking that company to come forward. Sorry, I am being tongue-in-cheek. You do not seem at all amused, Mr Morton.

Ms Williams—It has been a very difficult process, Senator Lundy, and I can understand your problems.

Senator LUNDY—I am amazed at this point. I knew this would be interesting but I did not think it would be so ludicrous. You cannot find absolutely basic information about what has gone on here.

Ms Williams—Mr Morton's process, I gather, was very difficult. I came halfway through it and it was a really difficult process.

Senator LUNDY—So a mystery response to fortunately not a mystery RFT. Mr Morton, are you familiar with what that RFT expressed—what it was seeking? Can you provide it to the committee?

Mr Morton—We believe we may have that in the contracts area in the department. I am not personally familiar with its actual content, but we will try and get hold of a copy for you.

Senator LUNDY—Yes, please. So what happened next? Obviously this went somewhere—hopefully into a little more light.

Mr Morton—The department, after getting the one currently unknown tenderer, approached other organisations, other government agencies, to see if they were interested in participating in the project. A number of them expressed some interest.

Senator LUNDY—So the department approached companies to express interest.

Mr Morton—It approached other Commonwealth agencies.

Senator LUNDY—For what reason?

Mr Morton—To see if they wished to invest in the project and to piggyback on the arrangements that the department was putting into place.

Senator LUNDY—To be joint owners of the possibly commercialised vehicle, even though—

Mr Morton—By licence or whatever it would happen to be.

Senator LUNDY—Were there any takers?

Mr Morton—There was one taker who—

Senator LUNDY—Shared the dot.com vision?

Mr Morton—decided to commit some funds to the process, so on that basis the department proceeded to expend some funds for additional hardware and licences.

Senator LUNDY—Who signed up?

Mr Morton—The Department of Transport and Regional Services.

Senator LUNDY—And for how much?

Mr Morton—They signed up for a total of \$485,000.

Senator LUNDY—What happened to the commercialisation tender at that point, or was that just not proceeded with?

Mr Morton—The tender was not proceeded with and the department proceeded on the basis of, as I say, discussions with individual agencies. From that process, there was one taker.

Senator LUNDY—So you are telling me the department was trying to commercialise it on its own without engaging an external company to do that.

Mr Morton—I believe so.

Senator LUNDY—Is that what you think?

Mr Morton—That is my understanding.

Senator LUNDY—And they got the support of at least one other agency in that endeavour.

Mr Morton—Yes, they did.

Senator LUNDY—At this point, what was the accountability within the department for these decisions?

Mr Morton—When you say ‘the accountability within the department for the decisions’, are you talking about awareness within the department of the commercialisation strategy?

Senator LUNDY—I mean \$485,000 does not lob into the departmental account without it being noticed, surely.

Mr Morton—No. In fact, DOTARS entered into an MOU with the department.

Senator LUNDY—How high up in the hierarchy within departments do MOUs with other departments go?

Mr Morton—We believe it may have been signed by my predecessor but we do not have a copy here so we will have to check that.

Senator LUNDY—That would have been a pretty clear signal that there was an interesting project afoot, surely. Can you try to pursue that issue this evening and find out when the MOU with DOTARS was signed.

Mr Morton—Yes. I will have to get that date for you. I do not have the precise date.

Senator LUNDY—Ms Williams, it is normal for MOUs to be signed with other departments without the person in your position being aware of it? Was it you by this time?

Ms Williams—No, this was before my days.

Senator LUNDY—I bet you are glad!

Ms Williams—Let us put it like this: the sorts of procedures we now have in place ensure that this kind of contract would be considered by management in general rather than done separately. We will come to those procedures later, but we now have them in place to make sure that this kind of contract is carefully considered at the top of the department.

Senator LUNDY—In retrospect, should the contract have been considered at that level?

Ms Williams—I believe it should have been.

Mr Morton—I believe so.

Senator LUNDY—Can you give me a ballpark date for the signing of that MOU—some time after February 2001?

Mr Morton—Yes, we are just trying to find one.

CHAIR—We were going to have a break at 9 p.m. so we will take a quick break of 10 minutes now.

Senator LUNDY—If you could keep looking for that information, Mr Morton.

Ms Williams—We will see what we can find out.

Senator LUNDY—I would be very interested in that date if you can get it.

Proceedings suspended from 8.48 p.m. to 9.07 p.m.

CHAIR—Before we resume questions, I want to clarify arrangements. Minister Kemp will not be here on Friday morning, so we will looking at Sport tomorrow. We are rearranging the agenda and we will let you have the details by the end of this evening.

Senator LUNDY—I would like to place on record my disappointment with what looks to me like a breach of an agreement reached by managers of government business and opposition business that would allow us to proceed with Sport on Friday. I am particularly disappointed by the attitude of the government in making it so difficult for me to ask my questions in my respective portfolios of IT and Sport. Anyway, we will get back to business and the issue at hand. I note that the minister is not back. I thought that was a 10-minute interview he was doing. How did you go with that answer, Mr Morton, about the date of the MOU?

Mr Morton—We could not find the precise date that the MOU was signed. We will have to take that on notice. We do know that discussions commenced in March and that there was expenditure taking place in late June-July, so we assume that the memorandum was signed around the time.

Senator LUNDY—Around March?

Mr Morton—No, the discussions commenced in March. As I said, expenditure seems to have occurred in June-July, so we assume that the memorandum was signed around that time. But we will see if we can get a precise date for you.

Senator LUNDY—So that MOU resulted in income for the department—is that correct?

Mr Morton—Yes, it did.

Senator LUNDY—Some \$485,000, I think you said.

Mr Morton—Correct.

Senator LUNDY—There were still other increases in expenditure in association with the Fujitsu contract, but for the sake of clarity I want to go through where we are at. The total cost of the contract as per the answers to questions on notice was \$4,018,805. We know now that the original contract was \$1,605,724. We have a breakdown in the categories of tender development, web site development, hardware, software, hosting and support enhancements and stamp duty for both the before and after scene.

We have been through an explanation for the element relating to hosting and support services. We know that the original figure for web site development of \$500,000 was for a white site and that there was a blow-out of some 11 months in the delivery of that requirement. We know that within this timeline, which spans from late 1999 to early 2000, there was also an initiative to commercialise the web site, so we will move on. The department received nearly half a million dollars from DOTARS—the Department of Transport and Regional Services—to assist with the commercialisation project. Was that the only income received from external sources to facilitate the commercialisation project?

Mr Morton—I believe so.

Senator LUNDY—What can you now tell me about the commercialisation initiative that relates back to the cost blow-outs of the original contract?

Mr Morton—Mr Nicholas will provide you with the funding details.

Mr Nicholas—There was additional hardware that was purchased for the commercialisation. There was additional software.

Senator LUNDY—Hang on! There is a difference between the hardware costs from the original contract and the total cost from \$438,000 to \$661,000-odd, so we are talking \$220,000 additional.

Mr Nicholas—Yes, \$223,000.

Senator LUNDY—What was that spent on?

Mr Nicholas—An amount of \$182,002 related to hardware for the commercialisation.

Senator LUNDY—What hardware?

Mr Nicholas—Additional servers.

Senator LUNDY—And the remainder?

Mr Nicholas—Of the \$223,000 difference?

Senator LUNDY—Yes.

Mr Nicholas—There is also \$10,000 that related to back-up tapes et cetera for the servers and \$31,041 that related to the implementation of the development and test environments.

Senator LUNDY—What does that mean?

Mr Nicholas—The implementation of the development is the servers and the test servers to run the system.

Senator LUNDY—Software.

Mr Nicholas—No, the setting-up costs.

Senator LUNDY—So the people costs.

Mr Nicholas—The set-up costs associated with configuring and the hardware.

Senator LUNDY—Somewhere for the white site to go.

Mr Nicholas—There are two sides to it: there is the development site; and there is also the test site.

Senator LUNDY—So the \$31,000 is for the test site.

Mr Nicholas—The implementation of the development and test environments.

Senator LUNDY—Can you take on notice to provide a more specific technical explanation for those three components.

Mr Nicholas—Yes.

Senator LUNDY—At this stage, we are still talking about the white site, aren't we? Is that what they are hoping to commercialise?

Mr Nicholas—From our understanding, they were hoping to commercialise the IP.

Senator LUNDY—The IP from the development of the white site.

Mr Nicholas—Yes.

Senator LUNDY—Software.

Mr Nicholas—The difference there was \$383,656.90, of which \$250,000 relates to additional software for commercialisation.

Senator LUNDY—What does that mean?

Mr Nicholas—Additional Vignette licences.

Senator LUNDY—So where did Vignette come from in this?

Mr Nicholas—Vignette was the content management solution that Fujitsu proposed in their tender.

Senator LUNDY—So was Vignette involved in the white site?

Mr Nicholas—Vignette was the software, the content management.

Senator LUNDY—I thought I asked that question before and you said that no, it was just Fujitsu.

Mr Nicholas—No, Fijitsu were the prime contractor and they were obviously utilising software. The software was being utilised for content management.

Senator LUNDY—So the white site that we have been talking about—the site that has all the functionality but no content as yet—was built on Vignette software?

Mr Nicholas—Vignette was the content management solution, yes.

Senator LUNDY—And that was part of the original \$500,000 contract?

Mr Nicholas—The Vignette software for the white site, the original site, was in the \$544,049 figure I gave you.

Senator LUNDY—I see. So it is separate to the web site development figure?

Mr Nicholas—Yes.

Senator LUNDY—So that \$544,000 figure was for Vignette software?

Mr Nicholas—It was for all software. So it included the Vignette software and all the software for the servers.

Senator LUNDY—When you say that there was an additional \$250,000 for Vignette software, does that mean additional licences?

Mr Nicholas—Yes, additional licences.

Senator LUNDY—So it does not mean anything new? It does not mean any new software?

Mr Nicholas—No, it was additional licences.

Senator LUNDY—And what were those additional licences going to permit?

Mr Nicholas—My understanding was that they were required for DOTARS to utilise the infrastructure.

Senator LUNDY—Just for DOTARS?

Mr Nicholas—Yes, that is my understanding.

Senator LUNDY—And there is still some outstanding money there?

Mr Nicholas—Yes, there was \$104,000 which related to the upgrade to Vignette version 6.

Senator LUNDY—Why would that cost more? Why wouldn't that have been in the original allowance for the contract? Aren't upgrades built into software contracts these days?

Mr Nicholas—They can be.

Senator LUNDY—Obviously not in this case.

Mr Nicholas—No, not in this case.

Senator LUNDY—So version 6 was another \$104,000. Was that for the licences including the DOTARS licences? Did it cover all of it?

Mr Nicholas—I am not sure whether it was for all of them. I am pretty sure it was related more to the original software that was purchased under that \$544,000. I would need to take that one on notice to check whether it covered all licences.

Senator LUNDY—Is there anything that you can observe that would have made it necessary to upgrade to version 6 or is that standard practice—when upgrades become available, you do it?

Mr Nicholas—From what we can gather, the upgrade was purchased to look at the integration of the other corporate systems with Vignette, in particular, TRIM, which is the records management system we utilise.

Senator LUNDY—Was that a justifiable decision from your retrospective 20/20 vision?

Mr Morton—It has not been used.

Mr Nicholas—It has not been used.

Senator LUNDY—But it was never commercialised either, was it?

Mr Nicholas—No.

Mr Morton—No.

Senator LUNDY—I think there is a relationship there; we will come to that.

Mr Nicholas—There is a balancing figure there, if you would like that, for the difference. The difference of \$29,656.90 relates to a software licence for TRIM eDrawer. That, again, relates to the TRIM integration.

Senator LUNDY—Why do you need more software?

Mr Nicholas—My understanding is that that software was required as part of the integration between Vignette and TRIM.

Senator LUNDY—Do you know whether that was required by Vignette as part of that exercise or whether it was an initiative of the department?

Mr Nicholas—My understanding is that it was required to implement an integration between Vignette and TRIM.

Senator LUNDY—Okay.

Mr Nicholas—Those three figures total to the difference.

Senator LUNDY—Can you specifically corral that increase from \$544,000 to \$927,000 for software costs to be associated with the commercialisation exercise?

Mr Nicholas—No. The \$250,000 for the additional Vignette licence was to do with commercialisation. The other components were to do with integration between—

Senator LUNDY—But I thought that was part of the commercialisation strategy.

Mr Nicholas—No. It was not part of the original commercialisation strategy, as I understand it.

Senator LUNDY—So, out of that increase of \$385,000, \$250,000 was specifically to do with commercialisation?

Mr Nicholas—Yes.

Senator LUNDY—But the rest was to do with the project?

Mr Nicholas—Proposed integration of systems.

Senator LUNDY—Which was being driven by Fujitsu and Vignette?

Mr Nicholas—No. My understanding is that it was an option to look at how we would store and archive information content from the Web onto the TRIM system. It was an option to integrate those two.

Senator LUNDY—What do you mean by ‘option’? Are you saying there was departmental discretion?

Mr Nicholas—Yes.

Senator LUNDY—Let us move on to web site development. Originally, there was \$500,000 budgeted for this white site. Under the new costings, it is \$1.2 million plus.

Mr Nicholas—Yes.

Senator LUNDY—Can you explain that?

Mr Nicholas—There was a figure of \$102,000 or \$103,000 that again was related to the commercialisation—additional development work that was required to go down the commercialisation option.

Senator LUNDY—Like what? What attributes of the site needed to be further developed to allow it to be commercialised?

Mr Nicholas—I would have to take the details on notice. My understanding is that it was to allow the commercialisation, so there was some additional development work that was not part of—

Senator LUNDY—Hang on a minute. How much was that figure?

Mr Nicholas—Approximately \$103,000.

Senator LUNDY—And you cannot tell me what it was for, other than something to do with commercialisation?

Mr Nicholas—It was to do with additional development of the site for commercialisation.

Senator LUNDY—When was that order signed off?

Mr Nicholas—I would have to take that on notice to get the exact date.

Senator LUNDY—I thought you had those request orders or something there.

Mr Nicholas—No, we do not have the change orders.

Senator LUNDY—Isn’t that what we are going through now—the main ones?

Mr Morton—We have information about a couple of them, but we only know in broad detail what the change orders were to do with. We do not have the detailed specifications in the change orders.

Senator LUNDY—Could you take it on notice to provide all the change orders?

Mr Morton—Yes.

Senator LUNDY—That has accounted for about \$120,000. What is the total difference?

Mr Nicholas—The total difference is \$712,809.58.

Senator LUNDY—That accounts for \$120,000 of it. What is the rest?

Mr Nicholas—There was approximately \$189,000 on contractors to assist with the development of the site. That is an amount that was outside the original contract.

Senator LUNDY—What were they doing? Was someone building content at this point or not?

Mr Nicholas—Some of that was to assist the department in the migration of content et cetera.

Senator LUNDY—That is \$189,000 to move content from the old site to the new site and to make it look pretty?

Mr Nicholas—The department was engaging contractors to assist in the functions or the requirements that were outside of the white site.

Senator LUNDY—Which was everything in the site.

Mr Nicholas—Look, feel and content et cetera.

Senator LUNDY—Keep going. We still have quite a few hundred thousand to go.

Mr Nicholas—There was another figure of approximately \$246,000 which was for consultants, again to assist—

Senator LUNDY—\$246,000 for consultants?

Mr Nicholas—Yes.

Senator LUNDY—Are these your mates, Minister? Is there a description of what the contractors who were paid \$246,000 were doing? Can you tell me who they were?

Mr Nicholas—It was assistance again which the department required outside the original contract.

Senator LUNDY—Were they competitively tendered consultancies?

Mr Nicholas—I would have to take that on notice.

Senator LUNDY—Can you add any detail?

Mr Nicholas—For example, there was work done on acceptance testing for the web site.

Senator LUNDY—Which document are you referring to?

Mr Nicholas—The figure I gave in answer to one of the recent questions on notice where we have a breakdown of those funds, the \$1.2 million—you requested a breakdown and there was further information provided. On the consultant side, it is a mixture of additional work that the department required to assist with its component of the project outside the white site.

Senator LUNDY—And that was outside the Fujitsu contract?

Mr Nicholas—Yes.

Senator LUNDY—And the \$189,000 in contractors was outside the Fujitsu contract?

Mr Nicholas—Yes, it was outside the original Fujitsu contract.

Senator LUNDY—And the additional development was inside the Fujitsu contract?

Mr Nicholas—The additional development for the commercialisation?

Senator LUNDY—Yes.

Mr Nicholas—No, that was an explanation of the variation between the \$1.6 million for the contract and where we have moved to.

Senator LUNDY—But you just gave me a figure of \$120,000 as part of this web site development and you said ‘additional development’.

Mr Nicholas—Are we back to commercialisation?

Senator LUNDY—I am asking you. We are dealing with the \$712,000 difference. You gave me a figure of \$120,000. I understood it to be for additional development of the white site to allow commercialisation.

Mr Nicholas—\$103,000 was the figure and that was for additional development to allow for commercialisation.

Senator LUNDY—Sorry; my mistake.

Mr Nicholas—So all these figures are outside the original \$1.6 million.

Senator LUNDY—But was it done by Fujitsu? Did Fujitsu get that \$103,000?

Mr Nicholas—All of the money went to Fujitsu, yes.

Senator LUNDY—When I say ‘outside the Fujitsu contract’, I mean outside the original contract but money going to Fujitsu.

Mr Nicholas—Some money went to Fujitsu; other money went to other consultants who were involved.

Senator LUNDY—Can you provide me with a breakdown, for all of these additional expenditures, of what went to Fujitsu, Vignette or other contractors and what went to other external service providers?

Mr Nicholas—Other parties, yes.

Senator LUNDY—We have only one to go, which is enhancements. Did we get to the total of the \$712,000? I do not think we did. There was \$246,000 in consultants, \$103,000 in additional development for commercialisation and contractors to the value of \$189,000 in web site development. I am not that good at maths. I do not think that comes to \$712,000.

Mr Nicholas—No. There is some more.

Senator LUNDY—Keep going.

Mr Nicholas—\$7,000 on accessibility review.

Senator LUNDY—Was it accessible?

Mr Nicholas—Yes.

Senator LUNDY—Is it?

Mr Nicholas—Yes.

Senator LUNDY—I do not think so. That is not what I have been told; I have been told that the web site does not pass the accessibility guidelines.

Mr Nicholas—There are some errors, yes, if you are referring to the question about the worldwide validator process.

Senator LUNDY—Yes. There are non-complying aspects.

Mr Nicholas—There are some non-fatal errors there.

Senator LUNDY—That is my point. So that is \$7,000 down the tube there. That is a fair comment, isn't it?

Mr Nicholas—No. The \$7,000 identified some areas that we needed to review.

Senator LUNDY—To fix up, but you did not do it. Keep going.

Mr Nicholas—\$51,000 for metadata generation and \$117,000 for the interface development for Vignette and TRIM.

Senator LUNDY—Didn't we pay for that somewhere else? Wasn't that the \$29,000 spent on eDrawer?

Mr Nicholas—That is software rather than development.

Senator LUNDY—And this is web site development integration. So there was another \$117,000 for that?

Mr Nicholas—Yes.

Senator LUNDY—So all up we are looking at nearly \$150,000 to look at integration between TRIM and Vignette?

Mr Nicholas—Yes.

Senator LUNDY—Do you think that is a pretty smart spend of taxpayers' money, Minister? The answer is no. I know the answer is no. Just say no.

Senator Alston—I thought that was your political prompt.

Senator LUNDY—It was, thank you. I made it for you. Anything else?

Mr Nicholas—No. That sums up the \$712,000.

Senator LUNDY—Now that we have broken down each of those amounts and the additional components, I would like you to take on notice providing me with the dates on which each of the change orders were signed with those descriptions. I have made my notes, but I want something a little more definitive. I would like to turn to the enhancements. What are they?

Mr Nicholas—They are the costs of enhancements that were done to the site outside of the original \$1.6 million of the Fujitsu contract.

Senator LUNDY—What were they?

Mr Nicholas—They were changes. I can give some examples. They included things like changing the layout, changes to the web site, creating online forms, changing the layout of the search results, building—

Senator LUNDY—Isn't that all done on the white site or is this additional functionality?

Mr Nicholas—These are enhancements above and beyond what was to be delivered.

Senator LUNDY—So we are still talking about stuff that is done on a white site at this stage.

Mr Nicholas—They are enhancements to the white site. The functionality that was to be provided—

Senator LUNDY—But we are still not talking about pictures or content, are we?

Mr Nicholas—No, we are talking about enhancements to the site.

Senator LUNDY—So the enhancements included online forms, search engines—what else?

Mr Nicholas—Layout changes, building new functionalities, updates and maintenance.

Senator LUNDY—And all of that worth \$181,000. Was that over a period of time or was it all on one change order?

Mr Nicholas—No, that is over a period of time.

Senator LUNDY—Between what dates?

Mr Nicholas—The figures that we have given you there cover prior to launch up until mid-March when we gave the figure of \$4 million.

Senator LUNDY—The minister said earlier that he was given a launch date that was then cancelled—June 2001. It was postponed.

Mr Morton—That is correct.

Senator LUNDY—The white site was then significantly overdue. That took it into 2001. So far we can only identify \$189,000—to consultants or contractors—that has anything to do with the actual content. What costs did the department incur for the look and feel and for the production, migration or creation of content for the new site?

Mr Nicholas—There were contractors and consultants who were assisting the department in that process.

Senator LUNDY—Sorry, there was \$189,000 for contractors and \$246,000 for consultants. Who actually did the graphics for the site? Which bundle of money does that get wrapped up in and what was it worth?

Mr Nicholas—The final graphics were done in house.

Senator LUNDY—In house? After all this, the actual look and feel—what people see—was done in house?

Mr Nicholas—Yes.

Senator LUNDY—And when was that?

Mr Nicholas—Sorry?

Senator LUNDY—When was that—at what point in this time line?

Mr Nicholas—I understand that was done from January 2002.

Senator LUNDY—January 2002? But the minister thought he was going to launch it in June 2001. What happened?

Mr Nicholas—There were a number of delays in the project. That was the original—

Senator LUNDY—Were the graphics always going to be done in house?

Mr Nicholas—Yes—I assume so because we were responsible for, as I said, the look and feel and the content of the site.

Senator LUNDY—When was the new site finally launched?

Mr Nicholas—In July 2002.

Senator LUNDY—So \$4 million later, the department does their own in-house graphics design and spends at the top end about \$500,000 to migrate and manage the content? Is that a fair observation?

Mr Nicholas—I would have to have a look at the break-up of the consultants and contractors and their actual tasks.

Senator LUNDY—I am just adding together the costs of the contractors and the consultants who were engaged on the web site development aspect. Is that expenditure a fair observation?

Mr Nicholas—Yes.

Senator LUNDY—There was a lot of money expended on this, so I just want to revisit the decision-making process in the department. What proportion of the department's IT expenditure was taken up by the web site development project—for the Fujitsu contract?

Mr Morton—We will have to take that on notice. It goes across a number of financial years and we do not have that information here. We can certainly provide you with that.

Senator LUNDY—Can you give me an idea? Was it half, the majority or a minuscule proportion of your departmental IT budget? I would be surprised if it were minuscule.

Mr Morton—It would be a reasonably substantial proportion, but I could not hazard a guess at a percentage. We would have to take that on notice and get back to you.

Senator LUNDY—Having a quick look at the answer to the question on notice provided to me by DCITA about contracts, it looks like about 60 per cent at least of your IT budget went into this project. Does that sound about right?

Mr Morton—I do not know. I would have to take that on notice.

Senator LUNDY—Was there a steering committee or a group within management or within the project guiding the project?

Mr Morton—There were a number of groups throughout the life of the project. In the governance structure of the department, one of the governance committees is the Information Management Committee and that would have been, in ordinary circumstances, the committee that would have taken prime responsibility for keeping an eye on the project, but the Information Management Committee did not meet during a substantial period of time while the project was under way.

Senator LUNDY—Why not?

Mr Morton—I am not sure. It just did not meet. We have been unable to find the reason. We believe that it did not meet for a period of almost 12 months. Some ad hoc committees met during that time, but they met infrequently. So there was no oversighting—

Senator LUNDY—Hang on a minute. What were the ad hoc committees that met?

Mr Morton—There was a web site committee which met twice, and there were various committees at the working level between various areas of the department that met from time to time. They met only in relation to specific parts of the project but not in terms of the governance of the overall project.

Senator LUNDY—Are there any records of those gatherings or meetings?

Mr Morton—That was one of the problems that we had. The records are very sparse and they do not provide very much information at all. Indeed, as I said earlier, finding meeting records has proved to be a very difficult process.

Senator LUNDY—An article in the *Australian* newspaper on 8 April says that an extra Vignette licence had been bought to commercialise the site but then these plans had been shelved. What happened to the commercialisation project? From everything you have told me up—obviously you have alluded to it in your answers, and the minister also did at the start—at some point a decision was made to stop that commercialisation project. So all of this expenditure was, as far as I can tell, geared towards a very significant initiative, of which the DOTARS money was just the start. Can you step me through the process of the cancellation of the commercialisation initiative, starting with the fact that the project was completed in March 2001 when that white site was finally constructed 11 months late?

Mr Morton—I believe that there was no specific decision not to proceed with the commercialisation. Two things essentially happened: apart from DOTARS, there was no take-up from anywhere else in the Commonwealth Public Service and—

Senator LUNDY—But there had not been a product at that point?

Mr Morton—That is right. And when the project was clearly running into difficulties DOTARS withdrew and decided not to proceed.

Senator LUNDY—When was that?

Mr Morton—We do not believe that there was a formal withdrawal. We have not been able to find a date in the record.

Senator LUNDY—Did they get their money back?

Mr Morton—They got some money back.

Senator LUNDY—How much? Surely, that is in your accounts.

Mr Nicholas—They were refunded \$127,273.

Senator LUNDY—I bet they were not very happy about that.

Mr Nicholas—That was the amount refunded. They were also provided a copy of Vignette software licences.

Senator LUNDY—So they got their licences for Vignette software?

Mr Nicholas—Yes.

Senator LUNDY—Mr Morton, you said that there was no specific decision not to proceed.

Mr Morton—There was no specific decision. This happened well before my investigation, and—

Senator LUNDY—Yes, you keep saying that.

Mr Morton—It is important to keep saying that, because it was very hard to discover this information afterwards. We have not been able, in putting together the record, to find any specific date upon which a formal decision was taken to withdraw; basically, it just petered out—I suppose that would be the right way to put it. From what I can see, any proposal to commercialise was shelved until some specific IT was actually developed and we had a site that was up and running.

Senator LUNDY—You said that content developed in house was completed in 2002. What happened between July 2001 and January 2002? When did you become involved?

Mr Morton—I became involved in a roundabout way, in that I was asked to conduct an inquiry about whether disciplinary action should be taken in relation to one of the people involved in the project.

Senator LUNDY—When was that?

Mr Morton—That was in December 2001.

Senator LUNDY—So you became aware of the issues then.

Mr Morton—I became aware only of the proposed discipline issue. At that time I took a decision in relation to that, and subsequent to that the then secretary to the department asked me if I would do a more detailed review of the history of the web site and what had happened at that time. At that time I was Chief General Manager of Old Parliament House; I was not actually involved in the department per se, physically.

Senator LUNDY—At what point was the minister made aware of what was going on?

Mr Morton—From looking at the information, I do not believe the minister was made aware until January 2002.

Ms Williams—That was the note that the minister mentioned, on 17 January 2002.

Senator LUNDY—Mr Morton, you said you had been involved in some way with an issue to do with the project in December.

Mr Morton—December 2001 was when I first reported in relation to the discipline issue. I had to do a very quick report in relation to that issue. As I say, at that stage I was asked to look further into the web site issue.

Senator LUNDY—And that was the report you prepared for the minister, delivered on the 17th?

Mr Morton—I did not prepare the report for the minister. I prepared the report for the secretary, but a—

Senator LUNDY—Ms Williams, was that you at that point?

Ms Williams—It was started by the former secretary. By the time Craddock reported, it was to me.

Senator LUNDY—So on 17 January 2002 you were there?

Ms Williams—No, that was the minute the former secretary wrote to the minister.

Senator Alston—It was Dr Watt's last day.

Senator LUNDY—Nice going away present! I can imagine what your first meeting with Ms Williams was about.

Ms Williams—Exactly.

Senator Alston—We could start afresh.

Senator LUNDY—‘Draw a line in the sand,’ I think is the expression. That obviously was not going to happen. So on 17 January, the last day of the former secretary, you kicked things off. What did you do, Minister, at that point, once you became aware of this?

Senator Alston—I have explained what I did, but I will say it again. Ms Williams's note says that at the first meeting with you after that you specifically asked me to give close attention to the web site problems and to move promptly to get it back on track. Your oral request was followed up by a note from your chief of staff on 1 February, which also sought a copy of the KPMG report and the Craddock Morton evaluation when finalised. You also asked for monthly updates on the progress of the project until its successful completion.

Senator LUNDY—Well minuted, Ms Williams! I bet the minister is grateful for that one. From that point on, did you get monthly reports about it?

Senator Alston—Yes, we did.

Senator LUNDY—So you became aware in early 2002 of the significant cost blow-outs associated with the project?

Senator Alston—Yes, and they were reined in from that point.

Senator LUNDY—They were reined in. What does that mean? Did you at some point stop the commercialisation project, given that Mr Morton cannot identify—

Senator Alston—I do not think that we did. I think that by that stage the department had come to that view.

Senator LUNDY—It had not come to that view?

Senator Alston—It had come to that view.

Mr Morton—Yes.

Ms Williams—As Mr Morton said, the thing had fizzled out before he started his review.

Senator LUNDY—So it had petered out, he said. So, when the minister became involved—

Ms Williams—It had already disappeared.

Senator LUNDY—Did the minister still understand there to be a commercialisation initiative afoot?

Ms Williams—No. I think that had already disappeared.

Senator LUNDY—What was your understanding of the process of reining in the costs, Minister?

Senator Alston—I do not have the reports here, but I think we were obviously concerned to minimise any ongoing costs and to rein in any areas of potential discretion. The department complied with that and we ended up with what we would regard as the best outcome in the circumstances.

Ms Williams—In the 17 January minute to the minister, I think that the previous secretary estimated the final cost to be about \$5 million, and at April this year the cost was \$4.05 million.

Senator LUNDY—One of the costs that we have not added in to the overall cost is the cost to the department for the in-house development. Are you able to put a figure on that?

Mr Morton—No, I am not, Senator.

Senator LUNDY—It must have been significant. You obviously had a bit of in-house work going on through all of this.

Mr Morton—There was in-house work in terms of the migration of the content and also in terms of updating content, but we do not actually have the records that would allow us to accurately cost staff involvement and how much time they spent on doing specific things.

Senator LUNDY—Is that because the records have mysteriously gone missing, or is the department so incompetent that it does not even keep basic records about human resource management and what the staff are doing at any given point in time?

Mr Morton—We do keep records of human resource management—

Senator LUNDY—It is an obvious question.

Mr Morton—but we do not keep records of charge-out for staff time.

Senator LUNDY—It is an issue of fact.

Mr Morton—We do not keep records of charge-out of staff time. Staff are paid to do a variety of things, one element of which may have been to do some work for the web site.

Senator LUNDY—We have asked many a question over many an estimates about the proportion of staff time allocated to specific programs or, indeed, to policy development on a given issue, and the department has inevitably been forthcoming in providing that information; and so I ask you to take that question on notice and provide the committee with a response.

Mr Morton—I will see what I can find, Senator.

Senator LUNDY—One thing that is obvious is that it will add to the bottom line of that \$4 million figure, and perhaps it will take it close to the figure of \$5 million, as estimated by the previous secretary—was it, Ms Williams?

Ms Williams—It was.

Senator LUNDY—Just going back to how this debacle got started, Fujitsu have been around for donkey's years. Are you in a position to make any observations on how they were so completely incompetent that they could not manage the construction of what appears to be

a pretty straightforward white site using pretty standard—correct me if I am wrong—albeit very expensive web site development technology in the Vignette product. What went wrong there, in your assessment, now that you have 20-20 hindsight vision?

Mr Morton—A couple of things went wrong in relation to that. First of all, the delays in getting the project going meant that Fujitsu's starting team changed and staff were—

Senator LUNDY—Their team changed?

Mr Morton—Their team changed during the project and perhaps the quality team that they had at the outset was replaced with a team of a slightly lower calibre. In one or two positions I think that may have been the case.

Senator LUNDY—Are you being polite? Were there greater issues there? Is there something on the record that can point to complaints the department had with Fujitsu's management of this contract? I am giving you a way out here.

Mr Morton—Yes, I know you are.

Senator LUNDY—You had better use it if there is anything there.

Mr Morton—I cannot say with that degree of specificity. Certainly during my look at the thing it was clear that the Fujitsu team changed and there was some suggestion that it did not change for the better, but I have no more detail than that. I think that was one issue, and I think the other issue was that, quite frankly, the department kept changing its mind about what it wanted—and not only changed its mind but did not make up its mind until the final product. That certainly added to the delay and the confusion.

Senator LUNDY—I think that is a very fair and appropriate point to make. Can I ask you what assessment you have done, or any observations you have, about Fujitsu's credentials in the area of web site development. In anyone's language, the original contract of \$1.6 million is incredibly large. Did Fujitsu, to your knowledge, have experience in this type of project before and, in your knowledge, had they had experience with the Vignette product before?

Mr Morton—I do not know the answer to that.

Senator LUNDY—Have you bothered to investigate it?

Mr Morton—No, I did not investigate that side of things. I was more concerned with the processes within the department and what the department had done and what it needed to improve in terms of its activities.

Senator LUNDY—Are you aware of any other departments using Vignette at the time that DCITA signed off on the Fujitsu contract?

Mr Morton—No, I am not.

Senator LUNDY—Are you aware whether any other departments have subsequently used that product?

Mr Morton—No, I am not.

Senator LUNDY—I am, and they have, and they do not seem to be having nearly the problems that your department had. But I should add that I have not asked them yet. Minister,

as for your becoming aware of this on 17 January, did you follow up with receiving monthly updates from the department about the status of the project?

Senator Alston—Yes, we did.

Senator LUNDY—Ms Williams, I presume you have those reports to the minister.

Ms Williams—We provided monthly updates until the project was launched.

Senator LUNDY—Which was when again?

Ms Williams—July.

Senator LUNDY—July 2002. Was there any further expenditure between when the in-house look and feel and content migration was completed early in 2002? Is that correct, or did it start then?

Mr Nicholas—Under the ‘enhancements’ category there is further expenditure where we have been making changes to the site.

Senator LUNDY—Would it be fair to say that those further enhancements would be required to actually make it work?

Mr Nicholas—To make it work?

Senator LUNDY—To make it functional, useable, intuitive.

Mr Nicholas—The changes we have made since launch are just to keep the site—

Senator LUNDY—Since the launch?

Mr Nicholas—Since launch—are focused on modifications as they come to hand.

Senator LUNDY—Minister, apart from being pretty quick to demonstrate your complete ignorance of all these goings-on up until a certain date, do you have any explanation as to how this particular project got so out of control within your own department, particularly given your department’s very strong policy focus at the time on actually encouraging departments and agencies to invest in web sites? I note that the department has acknowledged that NOIE, also under your jurisdiction, was releasing policies from time to time, and I think the general environment was one of positive pressure on agencies and departments to be more creative online. How did this get away from you? You can only make the observation that it was quite a demanding policy for government online, but how did it end up in such a debacle?

Senator Alston—I do not know whether it predates my arrival, but it goes back some years. The view of the department—quite understandably, I think—was that a ministerial web site will often contain what you and I might regard as fairly normal political messages but which the department might feel go beyond information they would normally feel comfortable making available. So from the outset there was a very strong demarcation line between the minister’s web site and the department’s web site and, as a result, they took the view that it was entirely a matter for them.

In hindsight, they may well have been overenthusiastic but, nonetheless, they were clearly determined to develop this in every way. Perhaps it is easy, looking back, to say that it might have been overly ambitious, but the idea of being able to cater for others and make it a commercial success was probably quite an attractive proposition for them and one they

thought they could handle because they deal on a daily basis with other departments. They probably took the view that this was not a matter that needed ministerial involvement, because it was very clearly a departmental project. As Mr Morton has said, there are a lot of other examples of that: Corporate Services would make myriad decisions every day of the week that do not ever go near the minister. It is a blessing in some respects, of course, although you can often think that things are relatively quiet and find out that there is a great deal of action occurring down the line. But that is probably how it should be—they will consult the minister if they think the minister needs to know.

Senator LUNDY—You could come to estimates and learn about what your department is doing.

Senator Alston—Generally, applying that principle of where they feel I need to know they keep me briefed works pretty well. In this case it may have been a bit heroic, but nonetheless it was quite admirable that they were prepared to embark on what was a fairly ambitious project on the basis that it was entirely their responsibility and they did not need to keep the minister posted. As it turned out, they did not until it went awry.

Senator LUNDY—Is it your understanding that the commercialisation project was halted?

Senator Alston—Yes, I think they realised that it was not going to be a goer and, as a result, they wound it back.

Senator LUNDY—I am not suggesting it necessarily came from you, but do you understand there to have been an instruction to halt the commercialisation project?

Senator Alston—Only from what I have been told subsequently. It is quite clear that the commercialisation aspiration was well and truly buried by the time Dr Watt put pen to paper for my benefit. That tells you that at some earlier stage the department or Fujitsu, or both, had decided this was not a goer. By then, of course, moneys had been committed. In any event there are some costs, and all you can do is write them off.

Senator LUNDY—I just want to get some clarification on that stopping of the commercialisation plan, presuming there was some IP—a huge amount of money was spent: commercialisation licences bought, software licences purchased and all the rest of it. Is there some glorious repository of the intellectual property created by this venture that is now in the possession of the department?

Senator Alston—Do you think this might be another hollow log?

Senator LUNDY—I am just wondering if there is anything to show for \$4 million whatsoever.

Mr Nicholas—We obviously hold the infrastructure and the web site set-up and system.

Senator Alston—When the next tech boom arrives—

Senator LUNDY—You will be ready.

Senator Alston—we will have a head start.

Senator LUNDY—Senator Alston.com. I think you will have them all on the run somehow, and I do not mean the bulls. Minister, you preside over the whole online strategy and are a champion and advocate of the thing. Did the experience in your own department,

once you became aware of it, ring some alarm bells about perhaps other agencies and departments that were responding to guidelines and pressures for online requirements through this period, and have you done anything to perhaps survey the experiences of other agencies and departments in their efforts to construct a bells-and-whistles web site—not that they could ever compete with yours of course?

Senator Alston—I think it was brought to my attention as a one-off event. I had no reason to think that there were problems elsewhere, and there have not turned out to be problems elsewhere. Our recollection is that, by that time, it was a matter of responsibility for individual departments and agencies. So it would really only have been NOIE that might have been in a position to make me aware of any problems, but they did not—and they have not—and therefore one assumes that there were not any.

Senator LUNDY—So have you done anything about it since? Have you initiated a survey? I could ask NOIE shortly.

Senator Alston—I do not know what you would survey.

Senator LUNDY—Costs—expenditure on the construction of government web sites, department by department, agency by agency—to see if anyone else has spent however many hundreds of thousands of dollars in response to security guidelines that, as far as I can tell, are completely discretionary.

Senator Alston—I would expect that, if any other department or agency found themselves in a similar situation, they would bring it to the attention of their minister. I do not know what more you could do.

Senator LUNDY—Have you had to counsel anyone recently?

Senator Alston—No.

Senator LUNDY—Any of your colleagues?

Senator Alston—Colleagues, no. I am not sure how well they would take to me counselling them, but I have not in any event.

Senator LUNDY—So you are not aware of any other significant blow-outs of costs on government web sites—none have been brought to your attention?

Senator Alston—No.

Senator LUNDY—Have any been brought to the attention of the department?

Ms Williams—No.

Senator LUNDY—Are you aware of any other commercialisation strategies associated with anything to do with government IT?

Mr Morton—No.

Senator LUNDY—Have there been any repercussions with respect to the money refunded to DOTARS and the fact that they still had the Vignette licences—for example, do they use your web site in some way or did they use the white site to build their own content? What happened in the wash-up with DOTARS?

Mr Morton—I am not familiar with what DOTARS have done in the intervening period.

Senator LUNDY—So once they purchased the Vignette licences this had nothing to do with DCITA—is that correct?

Mr Morton—We purchased the licence for them, but when they decided not to proceed in the venture with us we refunded some money and gave them the licence. From then on, they were not in that relationship. As I said, I am not aware of what they have been doing in relation to their web site.

Senator LUNDY—Could you, on notice, provide the committee with all of the conceivable documentation associated with this fiasco in as orderly a way as possible? In particular, I would like you to articulate this quite extraordinary allegation that there are documents missing and what documents you actually think are missing which perhaps do not allow you to complete the paper trail.

Mr Morton—We can certainly give you an outline of the efforts we have made to put together the paperwork and we can give you an indication of the files we have been able to construct. There will be quite a large amount of material and lot of it will be extremely peripheral. I will have to search through it.

Senator LUNDY—I am in the unenviable position of wanting to say, ‘Don’t worry about all of it,’ but I think I had better worry about all of it, if you could compile it in as orderly a fashion as possible.

Ms Williams—Senator Lundy, we could go through it with you. Obviously, there are some things which we have said today which we do not think we can find. We could list the obvious ones and come back to you and then you could come back to us if there is anything else you would like.

Senator LUNDY—I am happy to proceed on that basis, but not just what you think is missing. If you could provide me with the documentation. No, actually, I am not happy with that. I really do want to see it all. I know that is a lot, but so is \$4 million, especially when there is not much to show for it. I would like to ask the department to take on notice the detail of all overseas travel and costings of Senator Alston’s travel since he has been minister.

Senator Alston—Sorry?

Senator LUNDY—I am putting a question on notice to the department. You would not have time to itemise all your travel. If we started now, we would be here until morning. I am happy to stay, though, Minister, if you are volunteering.

Senator Alston—I am sorry: what are you asking me?

Senator LUNDY—I just put a question on notice for the department to detail for this committee your itineraries and associated costs for all overseas travel in which you have engaged since you became the minister. I was giving you the opportunity to tell me, but I think it would take you until the morning, so you are excused.

Senator Alston—It is all on the public record.

Senator LUNDY—Indeed.

Senator Alston—So I am sure that can be brought together.

Senator LUNDY—That is all I have.

Proceedings suspended from 10.13 p.m. to 10.25 p.m.**National Office for the Information Economy**

Senator LUNDY—Just to follow up on previous questions, has NOIE done any survey of government agencies and departments as to the cost of implementing the Government Online Strategy?

Dr Badger—Not that I am aware of.

Senator LUNDY—Is it your intention to do so in light of the debacle in the Department of Communications, Information Technology and the Arts?

Dr Badger—Not at this stage.

Senator LUNDY—Why not?

Dr Badger—The responsibility for complying with the general guidelines the government has on the online environment rests with individual agencies. There is no apparent reason for changing that environment.

Senator LUNDY—We just heard that within the department a decision was made to upgrade the security of the site apparently on the discretion of the decision maker at the time but in response to NOIE guidelines about security that were non-specific—that is, they did not offer any definitive guidance. Do you think that is good enough or is there an opportunity here for NOIE to sharpen up its act?

Dr Badger—The guidelines being referred to are not, in effect, NOIE guidelines. They are government guidelines for agencies to comply with the security requirements of the PSM guidelines and the ASCI-33 guidelines. There are part of the guidelines which apply to the operations of agencies in the management of their activities. The involvement of NOIE was to draw these to the attention of agencies as part of one of our online surveys and seek the agreement of chief executives that they would draw attention to these guidelines and ensure their agencies were complying with them. So they were not guidelines created by NOIE; they were part of the guidelines developed by the security services within the Commonwealth.

Senator LUNDY—I do not know if you heard the evidence of the previous witnesses, but they seemed to think there was a large element of discretion in the level of security applied to government web sites contained in a NOIE document offering guidance on the issue.

Dr Badger—Once again I have to say that the guidelines being referred to are not something that NOIE created, nor are they something that NOIE placed on agencies; they are a set of guidelines which agencies are required by government to comply with. Those are the guidelines that were being complied with that the time. It is up to each agency—depending on the nature of its business, the nature of its web site and the nature of the agency—as to how they go about doing that. Our role was to draw people's attention to the guidelines.

Senator LUNDY—Dr Badger, given your role in the department over the years, what is your knowledge of the attempt to commercialise the Department of Communications, Information Technology and the Arts web site?

Dr Badger—I do not have much knowledge of attempts to commercialise the web site at all.

Senator LUNDY—Were you involved at any stage in the decision making relating to the Department of Communications, Information Technology and the Arts web site?

Dr Badger—I was involved in the original tender process up until sometime in the middle of 2000. I cannot recall the timing, but I gather I was involved in the tender process—which is not unusual given the role I was playing.

Senator LUNDY—What role were you playing?

Dr Badger—I was one of the deputy secretaries. I was dealing with the IT side of the department and the NOIE side of the department at that stage.

Senator LUNDY—Just on that, in terms of the changes that have taken place with NOIE over time—sometimes in the department and sometimes out of the department—are you able to inform the committee of the costs associated with moving NOIE in its most recent shift back out of the department?

Dr Badger—I could not put a figure on it. It is very difficult to understand what you mean by ‘costs’. Are these costs of actually moving people from one building to another?

Senator LUNDY—All costs associated with it. Perhaps I should ask Ms Williams. Can you give me a figure of the costs associated with the change in NOIE’s status under the umbrella of the department, and any associated transition costs?

Ms Williams—I could not give you those.

Senator LUNDY—Could you take it on notice?

Ms Williams—We will try and get you something. I am not sure what we will be able to get you. We will have a look.

Senator LUNDY—Dr Badger, were you at any stage involved in the cancellation of the commercialisation project associated with ECITA’s web site?

Dr Badger—As I said, I am not aware of something called the commercialisation project, so I was not involved.

Senator LUNDY—I want to go to funding cuts under the current budget. Your funding for NOIE has experienced a drop of some \$5.776 million in 2003-04. Can you account for that cut in NOIE? What will the impact be on NOIE?

Dr Badger—There has not actually been a cut in what you might call NOIE’s core activities. The differences between the appropriations and our total revenue for the two years you are talking about are related to a combination of the budget measures related to the bookshop closure and to some minor offsetting savings that are also budget measures, but mainly, in addition to that, to the completion of programs that NOIE has been running up until the end of this financial year, for small business predominantly. For the numbers that you are talking about, there is \$4.7 million associated with the bookshop closure. There is a small amount related to some reductions in our administrative overheads to contribute to the funding on the Tough on Drugs in Sport process. There is an overall reduction of something like \$60,000 as a result of portfolio savings. Then there is \$5 million which comes off our funding because of the completion of the small business program which we were funded for last financial year—or this financial year.

Senator LUNDY—Why have the two government bookshop network figures—that is, the \$4.9 million and \$2.9 million—been split in the portfolio budget statements?

Dr Badger—One is a revenue figure and one is an appropriation figure.

Senator LUNDY—Where will the eight job cuts be coming from in NOIE?

Dr Badger—There is not an actual number of jobs that will be cut. Those numbers are, if you like, overall estimates of averages over the year between the two financial years. Our actual number of staff tends to go up depending on the nature of the projects we are involved in. We have a number of contract staff because we need to flexibly move resources from one project area to the next. There is no plan for, if you like, eight redundancies or anything like that. It is simply a number which indicates the difference from one year to—

Senator LUNDY—You just won't renew a few contracts.

Dr Badger—We have short-term contracts and longer-term contracts. One year we may have the balance of our resources in staff that we are paying, and the next year we may buy more expert advice from outside. It is just the balance of the projects that we are doing.

Senator LUNDY—Can you take on notice to provide me with as much detail as possible on the projects that, due to ebb and flow, are likely to result in a reduction in full-time equivalents?

Dr Badger—That will be a challenge but we will do what we can.

Senator LUNDY—I am just trying to save time this evening.

Dr Badger—That is fine. It is the nature of what NOIE does. We respond to changes in environment. We are dealing with a very fluid environment, particularly the government online site, as we respond to new projects which require particular sources of advice and particular sources of expertise. But we will put together a list of projects and attempt to assign resources to them.

Senator LUNDY—Just in relation to spam, I note that we finally saw a report. You took your time, Minister!

Senator Alston—We got there, though, didn't we?

Senator LUNDY—What does NOIE determine to be the annual cost of spam to the Australian economy?

Mr Besgrove—There are a range of estimates which have been put forward in the NOIE report. I think it is fair to suggest that they are all estimates. I do not think that NOIE was attempting to come out with an absolute number. We were endeavouring to try to give some idea of orders of magnitude. We talked about several different estimates. I do not think that we would be contending that there was a specific black and white number. We were trying to convey some concept of what the order of magnitude might be. The clear message that came back from our consultation process and the assessment of overseas studies in this area was that it was difficult to come up with hard and fast numbers, but it appeared that the magnitude was growing rapidly.

Senator LUNDY—Have you done an analysis of that rapid growing of the amount of spam?

Mr Besgrove—I might ask Mr Dale to respond to that, but we are monitoring that issue internationally, certainly in relation to the US and Europe, and we are also in close contact with a number of international agencies looking at those sorts of issues.

Senator LUNDY—Before I hear from Mr Dale, I found it interesting to note that initially NOIE's position seemed to change from being quite lukewarm on the issue of doing something about spam to eventually being quite strident, which I congratulate you on, but what informed that strengthening?

Mr Besgrove—NOIE was always quite concerned about spam. We went through a process of consultation in trying to get a better understanding of what the specific responses might look like. It became very clear as we went through the process of consultation, releasing a draft report and taking responses to the elements of that draft report that the issue is very multifaceted. We said in the report that there is no silver bullet, no single solution, that would in itself represent an answer to the spam problem. If government is going to try to make significant inroads in this area, it needs to adopt a multifaceted approach. Because of that, the recommendations in the report cover quite a range of things. Our bottom-line message is that it is that combination of measures that we believe will yield at least a partial solution.

Senator LUNDY—Minister, I recall in the heated debates about the Privacy Act amendments a couple of years ago that several issues relating to privacy in an electronic environment were raised, but the government chose very specifically not to address those. There was even a Senate report entitled *Cookie Monsters* which referred to privacy issues online and electronic data. It has taken you a long time to get this point, but do you concede that the government has sat back and waited for it to become a big problem before it has acted, instead of acting on some of the signals, particularly in relation to privacy in an electronic environment? You had the opportunity to legislate on that years ago.

Senator Alston—I think it is fair to say that the magnitude of the problem has come much more into focus in the last 12 months than it had a few years ago. But there has always been a fair element of doubt about whether some of the provisions of the Privacy Act apply to spam or whether you need to amend them to specifically cover the problems.

Senator LUNDY—The argument at the time was that the act did need some specific amendment.

Senator Alston—I am not sure that was universally accepted.

Senator LUNDY—I think it was not universally agreed.

Senator Alston—No, that is right, because there were some people saying it was not necessary to amend the act—and I am still not sure that it is. But we have gone out of our way to tackle problems as comprehensively as possible and, therefore, where it does involve the need to clarify any uncertainties, we will do that in favour of limiting the spread of what is now a major social problem for people operating online.

Senator LUNDY—When are you going to respond to the report—what is the process now? NOIE have produced it, presumably with your blessing. Are you now contemplating or drafting legislation?

Senator Alston—I think we released it on a pretty enthusiastic basis, so you can—

Senator LUNDY—That is certainly my understanding. Can we take that as an endorsement of the views expressed?

Senator Alston—Certainly.

Senator LUNDY—So are you preparing draft legislation?

Senator Alston—Yes. I think I said at the time of the launch I hoped we would have legislation within a matter of months, subject to drafting. There is no reason why we should not be able to get on with it pretty quickly, and I assume that is happening right now.

Dr Badger—Yes indeed. As Mr Besgrove said, it initially requires a multifaceted approach, and there is a series of other recommendations which need work with industry associations and education campaigns, and we are getting on with those.

Senator LUNDY—Are you able to comment on the merit of the recent changes in California to ban spam and whether that is a potential model for Australia—that is, dealing with the issue through the privacy laws?

Mr Dale—I might be able to respond to that. We monitor closely the antispam legislation in a significant number of US states now. The recent changes in California are certainly of interest, but I think at the moment the most interest in dealing with spam across the board in the US is focused on the possibility of federal legislation. I think that there is concern that state by state legislation has not been adequate. In terms of the privacy laws themselves as a mechanism, the Privacy Act in Australia is different from privacy laws in many states in the US.

What we have tried to identify in the NOIE report is a very specific set of issues focused on the spam problem itself. We have noted some issues and some possible applications of the Australian federal Privacy Act but we have focused on spam specific rather than privacy specific solutions. As the minister indicated, they appear to have general support from pretty much all stakeholders so far, so we would like to take that a bit further. Obviously, we are continuing to monitor developments in all relevant overseas countries.

Senator LUNDY—Thank you. Looking at public key infrastructure and Gatekeeper, can you confirm for me how many agencies and departments have adopted Gatekeeper?

Mr Besgrove—I think eight groups have been accredited under Gatekeeper either as RAs or CAs—some are both and some are one or the other—and it is my understanding that there are several other organisations that are currently going through the accreditation process.

Senator LUNDY—So how many are actually using it?

Mr Besgrove—The Australian Taxation Office is certainly using it.

Mr Dale—Gatekeeper is a standard, not a product. As Mr Besgrove has indicated, a number of service providers are accredited to operate against that standard.

Senator LUNDY—But do they use it as their PKI tool? I know you have eight accredited and some in train, but my understanding is that only the ATO are actually using it as their PKI solution. Is that true?

Mr Dale—No. At least the ATO and the Health Insurance Commission are using Gatekeeper accredited standard products for their own particular applications. A number of

other agencies are also using products accredited against the Gatekeeper standard. The ATO and the HIC are the two largest, but there are other agencies. We do not have the full details. We could provide them.

Senator LUNDY—There has been criticism that it is too expensive. For example, the ATO's PKI system cost more than \$1.75 million in the last two months. Can you comment on those costs?

Mr Besgrove—We provided information in response to a similar question to the Joint Committee of Public Accounts and Audit. It may be appropriate if we simply retender the answers to those detailed questions.

Senator LUNDY—Is that ballpark figure correct? It seems like a lot.

Mr Besgrove—It is at the extreme end.

Senator LUNDY—Mind you, this is DCITA, so it is all relevant to \$4 million web sites.

Mr Besgrove—In that answer, we indicated that there were a range of costs depending on the nature of the accreditation and that they ranged from, I think, about \$200,000 up to about \$1.8 million to \$2 million in the case of the tax office.

Senator LUNDY—So that figure is feasible.

Mr Besgrove—It is feasible but it is at the upper end. It also includes a number of business costs that would be exclusive of the Gatekeeper accreditation process. If you distilled those, it would be a somewhat lower number depending on the nature of the accreditation. It is not possible to give a simple X dollar cost for accreditation; it varies between different organisations.

Senator LUNDY—Could you provide me with details of what it has cost everyone who is using it.

Mr Besgrove—As I say, we have already placed that information on the public record and are happy to provide it again.

Senator LUNDY—Please forward it to me. You may have already placed on notice—forgive me, if you have—the full cost to NOIE of the development and ongoing costs with the Gatekeeper project.

Mr Besgrove—Can I just clarify? You are looking at the cost over a period of years of administering the accreditation system for Gatekeeper?

Senator LUNDY—All costs incurred by NOIE or the department in association with Gatekeeper, so it would be inclusive of that figure, yes.

Mr Besgrove—We should be able to give you estimates of that.

Senator LUNDY—The other allegation or comment, if you like, is that—and this was raised again in that Joint Committee of Public Accounts and Audit—agencies have not seen a use for it. Either it does not suit their own purposes or we have had more general observations made about Gatekeeper being an unnecessary initiative from NOIE—from the government. How do you respond to that?

Mr Besgrove—The first point is that NOIE is not in any way mandating that Gatekeeper be used by agencies. The government has decided that, if agencies determine that they want to use PKI, they should use Gatekeeper accredited service providers. However, it is the decision of individual agencies as to whether they go down the PKI route. It is important to understand that there is no obligation on agencies to use PKI. That is a decision they make.

Senator LUNDY—I appreciate that. I am giving you an opportunity to respond to criticisms, given the public investment.

Mr Besgrove—I think that the criticisms are somewhat overstated.

Senator LUNDY—I thought you would say that.

Mr Besgrove—But I also think that, by its nature, PKI does involve some complexity and it will involve some cost. At the end of the day, it is up to agencies to make a judgment as to whether there is a business case to support going down the PKI route.

Senator LUNDY—I will keep a watching brief on that one. I understand very recently there were another nine e-commerce projects announced through the ITOL grants. Can you tell me, in terms of ITOL grant funding, how much funding is left within that program, if anything?

Mr Cross—There is a further two years funding in the program.

Senator LUNDY—Which is how much?

Mr Cross—It is funded at \$2.5 million a year.

Senator LUNDY—How does that compare with previous financial years?

Mr Cross—It has been on a consistent basis of \$2.5 million a year.

Senator LUNDY—In terms of that funding for the next two years, is there anything in forward estimates beyond that, or not?

Mr Cross—No. The life of the program will be for—

Senator LUNDY—Another few years.

Mr Cross—under Backing Australia's Abilities for a further two years.

Senator LUNDY—Has there been any discussion to date about the extension of that program, or reflection by the department, or even the minister, that I am unaware of, about the value of the ITOL grants, and a possible extension of that program?

Mr Besgrove—There have not been any specific discussions about extending the program. NOIE has done some evaluation work. A while ago we got the Macquarie Graduate School of Management to look at what were then about 65 or 67 grants that had been made under the ITOL program up to that point.

Senator LUNDY—Was that made public?

Mr Besgrove—I believe the findings were made public.

Mr Cross—Yes. The report has been published on the NOIE web site.

Senator LUNDY—Did it have any links to it, or was it like the industry development report that had no links to it?

Mr Cross—It was published on the NOIE web site under ‘what’s new’.

Senator LUNDY—So it did have a link to it; it was not just there?

Mr Cross—Yes.

Senator LUNDY—Did it have a press release associated with its launch?

Mr Cross—No, I do not believe it did.

Senator LUNDY—I am going to test you out now. Can you tell me where it is on the web site?

Mr Cross—It would be under a search for ITOL.

Senator LUNDY—I do not want to search for it, because I know I will find it in a search. I want you to tell me where the links to it are.

Mr Cross—I could not tell you at this point.

Mr Besgrove—We will have to take that on notice. We do not have the web site in front of us.

Senator LUNDY—The web site does not work very well. Is NOIE part of DCITA’s web site?

Mr Cross—No.

Dr Badger—We have our own.

Senator Alston—Fiercely independent!

Senator LUNDY—I bet you are glad. How much did your web site cost?

Dr Badger—We have not really valued our web site. We have not embarked on a project to bring anything like the level of functionality that was envisaged by the original DCITA project.

Senator LUNDY—Functionality!

Dr Badger—I am talking about the original proposition for the project. The minister was talking about it earlier. At that stage, given what was possible and what people were thinking about, it was certainly trying to have functionality which would be, if you like, a forerunner of other web sites. Our web site is directed mainly to providing information about our projects, and government policies and guidelines et cetera. The last time we did an upgrade or a redevelopment it cost us something in the order of \$26,000.

Senator LUNDY—It cost \$26,000 to upgrade your web site?

Dr Badger—You cannot make any comparisons.

Senator LUNDY—I think yours looks better.

Dr Badger—That is because we are all better—I don’t know—

Senator LUNDY—Can I sense a bit of competitive tension between the department and NOIE?

Dr Badger—It is a completely different environment.

Senator LUNDY—Yeah, yeah.

Dr Badger—I can hardly have any tension with the department. I keep on moving in and out of it like a—

Senator LUNDY—Yes, well, I want to know how much that costs too.

Dr Badger—I am a very low-cost operation.

Senator Alston—Ask for his tram tickets!

Dr Badger—That's right!

Senator LUNDY—Look, this is a serious point. The department has done this before. You can find things on searches, but I am interested in finding the links for ITOL.

Mr Cross—If you were searching for it you would go to the front page of their site and look under e-business and then e-business projects.

Senator LUNDY—Is that ITOL grants programs?

Dr Badger—Are you going to find that it is not on the web site?

Senator LUNDY—I am looking for the evaluation report, and I cannot find it.

Mr Cross—It was not an evaluation report per se. It was a study of a survey of 67 ITOL projects conducted to date undertaken by the Macquarie Graduate School of Management.

Senator LUNDY—Is that the extent of evaluation to date?

Mr Cross—That has been one of the major tools that we have used to evaluate how the program has been travelling in the e-business community.

Senator LUNDY—What is the title of the survey?

Mr Cross—I do not have the specific title.

Senator LUNDY—I have had a quick look at the ITOL funding program page and I cannot find a link to the survey. Now you have a project to find it.

Mr Cross—I am sure I will be able to find it in time.

Senator LUNDY—I am sure you will update the web site. I am interested in the evaluation of ITOL, how it is proceeding, whether you think it is value for taxpayers' money and what the relative benefits are to the recipients of the grants and their respective communities. Going back to the issue of the web site, from NOIE's point of view, you effectively have guidance over the online strategy—e-government—is that correct? You provide advice to government agencies and departments in their enthusiastic pursuit of achieving government policy and the benchmarks the government has established; is that a fair reflection of your role?

Mr Grant—As part of our Government Online Strategy we introduced the online information service obligations. As Dr Badger said, that provided guidance to agencies primarily built on elements that already existed.

Senator LUNDY—Other standards.

Mr Grant—Yes.

Senator LUNDY—When the DCITA web site debacle became public, were you, like me—and, I am sure, the minister's office—flooded with comments from local web developers

who argued vehemently that they could have produced what they say would be a far better quality web site, perhaps on a par with NOIE's web site, for a hundredth of the price?

Mr Grant—Not that I am aware of.

Senator LUNDY—Perhaps I should ask you, Minister. Who is the repository for that valuable input from the local web developing community on behalf of the government, because I certainly got a lot of emails? Did you get a lot of emails about it? I bet you did.

Senator Alston—I do not know. I have read a few furious complaints along those lines.

Senator LUNDY—I got some really funny ones, actually. I should share them with you.

Senator Alston—I am happy to check it out. We probably did. I think I might have seen a couple of people saying we could have done it for less.

Senator LUNDY—In all seriousness, is there a bigger lesson in all of this debacle that perhaps the government ought to look a little closer to home for their talent when it comes to creating digital content for themselves—in this case, web content—and save yourself a bit of money?

Senator Alston—I do not know that you would strike with the proposition that domestic IT firms would have greater insights, greater levels of knowledge or are more perspicacious. The problem always, particularly when you look back, is that people overextend themselves. If you look at the whole tech wreck, every IT company got caught up in it in one way or another. No-one is able to insulate themselves.

Senator LUNDY—On that issue, the tender times associated with the DCITA web site were notoriously short in both cases. No-one knows anything about the commercialisation tender, so I do not even know how big that was, but even the primary tender was \$1.6 million. That is a lot of money for a web site. It was only out to tender for a month.

Senator Alston—The original was about \$600,000, but there are always extras clauses.

Senator LUNDY—No, the contract signed with Fujitsu was for \$1.6 million.

CHAIR—Senator Lundy, I hate to say this, but we have reached our scheduled closing time.

Senator LUNDY—Excellent.

Senator Alston—I suppose that is an example of what can happen. You think it will cost \$600,000, you end up signing for twice that. You think the extras will be small, but they just go on occurring. Once you are on the treadmill, it is rather difficult to get off. As we know, people can give you modest quotes until you have signed up. It happens in the building trade all the time. People sign contracts and then, having got themselves in, they argue that they cannot possibly do it and they need to renegotiate halfway through.

Senator LUNDY—So there is a lesson in there for you somewhere, isn't there? Have you worked it out yet?

Senator Alston—I suppose you just try and be as vigilant as possible. Obviously, most people are trying to do their best to avoid being ripped off or overextending themselves. It is not a perfect world. As I said, pretty much all telcos and IT companies have been knocked around big time because they did not have perfect foresight.

Senator LUNDY—Do you pay a little more attention to what is going on in your department now?

Senator Alston—I do not think I take any less interest in issues from the outset. This was an issue that the department decided did not need ministerial involvement in or awareness of. They ultimately thought that they should make me aware of it. I have confidence that they will always be thinking about whether there is a need to brief the minister. Clearly you would not want them to suddenly start briefing you on every little thing that is around the place. You would be swamped in red tape. It is a matter of judgment. I think their judgment has been pretty good over the years. So I do not think there is any need for special interventions. There is no reason to think that people have not learnt some lessons from all of this.

CHAIR—We have to wrap up, so I wish to advise that we may require departmental people on Friday for a spillover for a certain amount of time. It is not quite clear who will be required or for how long at this stage, so we will communicate with you through your offices. Thank you very much for being here.

Committee adjourned at 11.04 p.m.