



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FINANCE AND PUBLIC ADMINISTRATION LEGISLATION
COMMITTEE

ESTIMATES

(Budget Estimates)

WEDNESDAY, 24 MAY 2006

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SENATE

FINANCE AND PUBLIC ADMINISTRATION LEGISLATION COMMITTEE

Wednesday, 24 May 2006

Members: Senator Mason (*Chair*), Senator Murray (*Deputy Chair*), Senators Brandis, Carol Brown, Fifield and Forshaw

Senators in attendance: Senators Brandis, George Campbell, Carr, Carol Brown, Forshaw, Mason, Murray, Robert Ray, Sherry and Webber

Committee met at 9.04 am

FINANCE AND ADMINISTRATION PORTFOLIO

In Attendance

Senator Minchin, Minister for Finance and Administration

Senator Colbeck, Parliamentary Secretary to the Minister for Finance and Administration

Department of Finance and Administration

Executive

Dr Ian Watt, Secretary

Ms Thea Daniel, Executive Officer

General

Mr Jonathan Hutson, General Manager, Corporate Group

Mr Ian McAuley, Branch Manager, Parliamentary and Corporate Support

Mr Michael Hirschfeld, Branch Manager, Strategic Partnerships

Ms Philippa Crome, Branch Manager, Human Resources Services Branch

Mr Geoff Hill, Director, Portfolio Coordination Unit

Mr Glenn Black, Senate Estimates Coordinator

Ms Louise Heath, Portfolio Coordination Unit

Mr Dominic Staun, General Manager, Financial and e-Solutions Group

Ms Samantha Dickinson, Financial and e-Solutions Group Point Person

Outcome 1

Mr Phil Bowen, General Manager, Budget Group

Mr Lembit Suur, Division Manager, Industry, Education and Infrastructure Division

Mr John Ignatius, Division Manager, Budget Policy and Coordination Division

Mr Peter Saunders, Division Manager, Government and Defence Division

Mr Joe Roach, Branch Manager, Defence Capability Branch, Government and Defence Division

Ms Jackie Wilson, Division Manager, Social Welfare Division

Mr Mathew Fox, Branch Manager, Budget Coordination Branch

Mr Tim Pyne, Branch Manager, Budget Analysis Branch

Mr Luke Stanley, Budget Group Point Person

Ms Kathryn Campbell, General Manager, Financial Management Group

Ms Anne Hazell, Division Manager, Financial Reporting and Cash Management Division
Mr Brett Kaufmann, Branch Manager, Financial Reporting Branch
Mr Tony Olliffe, Financial Reporting Branch
Ms Karen Doran, Division Manager, Superannuation and Governance Division
Ms Sandra Wilson, Branch Manager, Superannuation Branch
Mr Martin Cashel, Branch Manager, Superannuation Financial Branch
Mr Michael Cullhane, Branch Manager, Future Fund Branch
Dr Tom Ioannou, Governance Structures Branch
Mr Ian Willis, Acting Director, Office of Evaluation and Audit
Mr Patrick Batho, Acting Branch Manager, Office of Evaluation and Audit
Mr Mike Loudon, Division Manager, Financial and Budget Framework Division
Mr Neil Robertson, Acting Branch Manager, Financial Framework Branch
Mr Marc Mowbray, d'Arbela, Branch Manager, Legislative Review Branch
Mr Robert Higgins, Branch Manager, Financial Management Group Point Person

Outcome 2

Mr David Yarra, Acting General Manager, Asset Management Group
Mr Robert Butterworth, Division Manager, Shareholder and Asset Sales Division
Mr Rick Scott-Murphy, Division Manager, Property and Construction Division
Mr John Grant, Division Manager, Procurement Division
Mr Robin Renwick, Branch Manager, Asset Sales Branch
Mr Geoff Anderson, Branch Manager, Major Projects Branch—Immigration
Ms Adora Monteiro, AMG Point Person
Mr Simon Lewis, General Manager, T3 Sale Taskforce
Mr Mark Heazlett, Branch Manager, Offer Structure and Institutional Marketing, T3 Sale Taskforce

Outcome 3

Ms Jan Mason, General Manager, Ministerial and Parliamentary Services
Ms Kim Clarke, Branch Manager, Entitlements Policy
Ms Carolyn Hughes, Branch Manager, Client Services
Mr Ken Sweeney, National Manager, COMCAR
Mr Greg Miles, Branch Manager, Entitlements Management
Mr Greg Smith, M&PS Point Person

Outcome 4

Ms Ann Steward, General Manager, Australian Government Information Management Office
Mr Patrick Callioni, Division Manager, Australian Government Information Management Office
Mr Brian Stewart, Branch Manager, Strategic Directions
Ms Robyn Fleming, Branch Manager, Investments and Enabling Projects
Mr John Lalor, Branch Manager, Service Delivery Branch

Australian Electoral Commission

Mr Ian Campbell, Electoral Commissioner
Mr Paul Dacey, Deputy Electoral Commissioner
Ms Barbara Davis, First Assistant Commissioner Business Support

Mr Kevin Bodel, Director, Funding and Disclosure
Mr Tim Pickering, First Assistant Commissioner Electoral Operations
Ms Paula Anderson, AEC Point Person

ComSuper

Mr Leo Bator, Chief Executive Officer
Ms Cindy Briscoe, Deputy Chief Executive Officer
Ms Michelle Crosby, Chief Finance Officer

Public Sector Superannuation Scheme and Commonwealth Superannuation Scheme**Boards**

Mr Steve Gibbs, Chief Executive Officer, Public Sector Superannuation Scheme
Mr Peter Carrigy-Ryan, Chief Business Operations Officer, Commonwealth Superannuation Scheme

Commonwealth Grants Commission

Mr John Spasojevic, Secretary
Mr Malcolm Nicholas, Assistant Secretary
Mr Owen Rodda, Director, Corporate Services

Future Fund

Mr Rob Barnes, Future Fund Management Agency
Mr David Murray, Chair, Future Fund Board of Guardians

CHAIR (Senator Mason)—Good morning, ladies and gentlemen. I declare open this meeting of the Finance and Public Administration Legislation Committee. The Senate has referred to the committee the particulars of proposed expenditure for 2006-07 for the parliamentary departments and the portfolios of prime minister and cabinet and finance and administration, including the Department of Human Services and related agencies. The committee may also examine the annual reports of the departments and agencies appearing before it.

The committee is due to report to the Senate on 20 June 2006 and has fixed Friday, 7 July 2006 as the date for the return of answers to questions that are taken on notice. The committee's proceedings today will begin with its examination of the Finance and Administration portfolio. Examination of the Department of Human Services and related agencies will commence tomorrow, Thursday, 25 May. I propose to proceed by opening with general questions and then calling on the outcomes and outputs in the order listed on the agenda.

Under standing order 26, the committee must take all evidence in public session. This includes answers to questions that are taken on notice. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or to disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as contempt. It is also a contempt to give false or misleading evidence to a committee. The Senate by resolution in 1999 endorsed the following test of relevance at estimates hearings:

Any questions going to the operations or financial positions of the departments and agencies which are seeking funds in the estimates are relevant questions for the purpose of estimates hearings.

I remind officers of the Senate's resolve that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise.

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

If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. Any claim that it would be contrary to the public interest to answer a question must be made by the minister and should be accompanied by a statement setting out the basis for the claim.

[9.08 am]

Department of Finance and Administration

CHAIR—Minister Minchin, good morning. Dr Watt and officers, welcome; it is good to see you back again. We will commence with the Department of Finance and Administration and go first of all to general questions.

Senator Minchin—Chair, can I just seek whatever confirmation you are able to give that the timetable as set out here is the one the committee intends to seek to follow?

Senator FAULKNER—There is the issue, Chair, of the AEC. I still think it is possible that that is going to be dealt with on the Thursday morning, which was the original intention. There is that issue, but that is the only area of uncertainty, Minister.

Senator Minchin—As to whether you get to the AEC tonight or tomorrow, do you mean?

Senator FAULKNER—The committee had originally intended that Ministerial and Parliamentary Services and the AEC would be on Thursday morning. It has listed the AEC for the final program tonight. Later in the day we might be able to advise further, but I am still expecting it to be tomorrow morning—as I mentioned to you privately.

CHAIR—I understand that.

Senator Minchin—What would that mean for this evening?

Senator FAULKNER—Senator Sherry is not the responsible shadow minister for this, you see. We will chase this down during the day, but that is the only need for flexibility. If that helps Dr Watt—

CHAIR—Minister, it will not come on before dinner tonight.

Dr Watt—I think we are asking what is on after dinner, if it is not the AEC.

Senator MURRAY—Fun and frolics.

Senator SHERRY—An exhaustive continuation of current—

Senator Minchin—I am very happy if you adjourn for the State of Origin, of course.

Senator SHERRY—That is not the game plan. It is not an AFL game, so—

Senator FAULKNER—I think our problem is trying to fit the programs into the original timetable. The amount of time set aside for other elements of the portfolio—namely MAPS and AEC—and for Human Services tomorrow was deliberately determined so we could fit both those programs in. It depends how we go. That is all I am flagging. We will help you later on, because we always do.

CHAIR—You are always helpful, Senator Faulkner.

Senator SHERRY—Could I raise another program issue? I understand from the conversation that we had last night that there is a possibility that Mr Murray of the Future Fund is now to turn up. Can you clarify the time? I understand he has indicated some sort of time frame. I must also say that I discovered a great quote in one of the numerous speeches he has given. He says, ‘I am a public servant.’ It will be great to see if there has been a change of heart.

Dr Watt—Part time.

Senator SHERRY—Part time or full time—

Dr Watt—It is part-time public servant—small p, small s.

CHAIR—It is a fair question. There are indications that Mr Murray has to go by 4 pm this afternoon. It is probably convenient that he appear after lunch.

Senator FAULKNER—In that case, I suggest the rest of the program gets put back and the AEC can go on til tomorrow morning. Why don’t we formalise that?

CHAIR—Let us see how we go—or would you prefer to do what you suggested?

Senator FAULKNER—Yes. I think it is logical, but far be it for anyone else to support my logic.

CHAIR—What worries me is: will Senator Evans agree with what you are proposing?

Senator FAULKNER—I am sure he will, but anyway we have the numbers.

Senator SHERRY—He is not here; we are.

Senator FAULKNER—Senator Evans is a suitably consultative leader when it comes to—

Senator SHERRY—That is right.

Senator BRANDIS—Senator Evans is the leader. Surely you have to do what he says, don’t you?

Senator FAULKNER—Poor old Senator Brandis. His sense of humour has left him by Wednesday morning. What is he going to be like at the end of next week? I am sorry. I was wrong. You never had a sense of humour, Senator Brandis—I apologise.

CHAIR—Senator Faulkner, if you, Senator Evans and Senator Sherry can come up with an arrangement, the committee will be happy to work around that. Will you discuss it with Senator Evans?

Senator FAULKNER—Yes.

Senator SHERRY—In terms of the program and the Future Fund, there is now a Future Fund advisory unit in the department of finance, so my suggestion is that when we deal with the Future Fund agency we link the Future Fund advisory unit with that.

Dr Watt—We are prepared for that.

Senator SHERRY—I thought you would be, but it seemed to be commonsense that we deal with it in that way.

CHAIR—Minister, as soon as the Labor Party have had their discussions we will let you know about the indicative program for tonight and tomorrow morning.

Senator MURRAY—Senator Kemp said he would be happy to stand in for you whilst you went off to the important meeting after dinner.

Senator Minchin—I will take him up on that. Thank you.

Senator SHERRY—I want to clarify a couple of things in terms of the PBS. There was a budget measure listed for outcome 3, output group 3.1: ‘Ministerial communications—network operations centre construction’. I obviously want to ask some questions about that, but I want to get an indication of what it is that is being constructed.

Dr Watt—We can do that. We will get our chief finance officer, Mr Staun, who is also our chief information officer and who therefore has responsibility in the department for the Ministerial Communications Network, to the table immediately.

Senator SHERRY—The other thing I will raise in general questions—though I will raise it in the context of privatisation—is that I notice there has been a bit of commentary from some quarters about the Snowy Hydro. I would like to record Senator Minchin’s rapidly lifting eyebrows in *Hansard*. There has been some commentary about the sale of Snowy Hydro Ltd. Minister, my understanding is that the bill passed in the Senate in the last sitting fortnight. Can you confirm that for me?

Senator Minchin—You will recall that there was a resolution proposed in both houses of parliament pursuant to section 7 of the Snowy Hydro Corporatisation Act, and that resolution was approved by substantial majorities in both houses. What you are hearing is that Senator Brown has a lawyer who says that it needed an act of the parliament to approve the sale. We have legal advice to the contrary.

Senator SHERRY—I am going to raise that in more detail. I have noted some comments from some other senators, not just—

Senator Minchin—I have noticed that too.

Senator SHERRY—Senator Heffernan. I can recall the resolution we passed, because we dealt with it in the Senate.

Senator Minchin—Yes, I think you spoke on it.

Senator SHERRY—Yes, I did. I handled it for the Labor opposition. But you are confident—and we can probably deal with this in a bit more detail later—that the legal advice that the resolution was sufficient is sufficient basis for the sale of the Commonwealth shares.

Senator Minchin—I have re-read the legal advice since Senator Brown put his around. I am reassured and confident that what we have done is fully in accordance with the legal advice. We sought legal advice before putting this to the parliament and proceeded on the basis of that legal advice.

Senator SHERRY—I can recall Senator Brown participating in the debate, but I am really struggling. Could you or your office please check to see whether Senator Heffernan participated in the debate?

Senator Minchin—I am happy to check.

Senator SHERRY—I cannot recall him speaking.

Senator Minchin—I do not recall him speaking, but I will have that confirmed.

Senator SHERRY—And perhaps you could also check whether he voted in favour of the resolution.

Senator Minchin—We can check the record of the debate.

Senator SHERRY—He may have had a pair and there may have been some other circumstance, but I actually think he voted in favour of the resolution to privatise.

Senator Minchin—I am happy to check the record on that.

Senator SHERRY—If you could, thanks.

Senator MURRAY—Sometimes when you feel really strongly about something, you are rendered speechless.

Senator SHERRY—If you do feel strongly—

Senator FAULKNER—Have you ever been rendered speechless?

Senator MURRAY—I am often rendered speechless.

Senator SHERRY—If you do feel strongly, Senator Murray, in the Senate it is usual to speak, as I recall. This is where it would be useful to know, Senator Minchin. He may have been paired—

Senator Minchin—Can you come back to the subject? For the record, Senator Heffernan has obviously spoken to me, as the responsible minister, in private on numerous occasions. So, to be fair to Senator Heffernan, he has made clear to me his personal views on this matter. I do not want anything I say here to be a reflection on Senator Heffernan.

Senator SHERRY—But, in terms of facts, could your office just clarify whether he had a pair? He may have been absent. I do not know.

Senator Minchin—Certainly. We will find that out.

Senator SHERRY—Secondly, can you tell us whether he spoke—I cannot recall him speaking in opposition. We can deal with that in a bit more detail later.

Senator BRANDIS—Are you finished on that point?

Senator SHERRY—Yes, I am.

Senator BRANDIS—Then I will not persist with the objection I was going to make to what you were saying.

Senator SHERRY—The ministerial communications—

Dr Watt—Mr Staun is here.

Senator SHERRY—Can you give me an overview of what this construction work is all about—where it is taking place, what is occurring, the details of any technical equipment and its purpose et cetera?

Mr Staun—Certainly, Senator. Part of my responsibility is the ministerial wing network, which provides secure communications for ministers and departments and manages ICON, the fibre network that goes around Canberra. You may recall that, three years ago, the government approved a significant investment of some \$13 million in rebuilding that network. As part of that, we also built in duplication and redundancy to ensure that, in the event of equipment failure, it could fail over to alternative equipment so that 100 per cent availability and continuity would be maintained.

MCN is located in the basement of Parliament House and, whilst we have that redundancy, if there were a security incident at Parliament House, of course we would not necessarily be able to maintain those communications. So, for continuity of government purposes, it was decided to seek a location outside of five kilometres of Parliament House. We have selected a site in Hume: a warehouse building which, over the next six months we will be fitting out to accommodate the ministerial wing communications network staff and, of course, all of the equipment.

There is also an occupational health and safety issue in having people work 24 hours a day in the basement of Parliament House. The government has agreed to a measure of \$5.6 million over four years to support that activity. We will continue to maintain the basement in Parliament House as the fail-over site, and Hume will become our primary site.

Senator SHERRY—Which staff are in the basement? Who are these people?

Mr Staun—These are ministerial wing support staff who actually maintain the equipment, provide a help desk service, go around to the various locations every six months and replace or reconfigure the encryption equipment et cetera.

Senator FAULKNER—When you say ‘various locations’, do you mean various locations in this building?

Mr Staun—No, they are at a single site, down in the basement.

Dr Watt—They are Department of Finance and Administration staff, I think.

Mr Staun—Correct—they are.

Senator FAULKNER—They are DOFA staff. They are in the basement of the DOFA building?

Dr Watt—No, of this building.

Senator FAULKNER—That is what I thought you said. How many of them are there?

Mr Staun—In the basement of this building, there are approximately 15. The other issue, of course, is that, as ministerial wing communications responsibilities have increased over the last number of years, it is a very crowded environment, apart from just the poor working conditions.

Senator SHERRY—I am still not really clear about the role of the approximately 15 staff. Let us just deal with that. Is it a technical support role?

Mr Staun—Yes.

Senator SHERRY—What does that technical support involve?

Mr Staun—Keeping the ministerial communications network running. That involves everything from break-fix and ensuring that encryption is maintained to providing a help desk et cetera.

Senator SHERRY—As part of the upgrade relocation, is it anticipated that additional staff will be employed?

Mr Staun—MCN will have almost doubled in size by about now. It has increased for two reasons: firstly, because we have taken over responsibility for the ICON, the Intra-government Communications Network—it is a fibre network which connects all departments around Canberra—and, secondly, because they have also taken over the Finance-wide area network support. They took that over about two years ago.

Senator SHERRY—Just to clarify, you say ‘almost doubled’. Does that mean double the number we had originally?

Mr Staun—To 30. There are other ministerial wing staff located in Tourism House, along with the rest of my group that supports the other activities: the Finance-wide area network and ICON.

Senator SHERRY—Does the upgrade involve an upgrade in the capabilities of the communications network?

Mr Staun—No. That was completed earlier this year.

Senator SHERRY—Thank you for that.

Senator ROBERT RAY—I have only two or three general questions and then I will leave you to it. We heard evidence from the Department of Parliamentary Services or the Department of the Senate about the issue of the Citizenship Visits Program being amalgamated with the Education Travel Rebate Scheme. This is, if you like, a tripartite discussion, by way of correspondence, between the Prime Minister, the two successive ministers for education, Brendan Nelson and Julie Bishop, and the Presiding Officers. All the way through that correspondence, they talk about potential savings and efficiencies. I am wondering whether the Department of Finance and Administration was involved in that and whether they could tell me what efficiencies they anticipate by the amalgamation of those two programs. I say up front that most of us thought that was a Trojan Horse argument. You may, in fact, be able to rebut that.

Senator Minchin—My opening remark would be that we were not at all involved in this, except to the extent where any costings were required. But, to the extent that the matter was discussed at ERC, obviously I was involved, but we were not central players in this.

Mr Bowen—There were no savings taken in the decisions to amalgamate those programs. Any efficiencies that might arise—

Senator ROBERT RAY—Were they psychic savings?

Mr Bowen—Any efficiencies that might be discussed, I think, would be ploughed back into those programs. There were no savings taken.

Senator ROBERT RAY—That is all I need to know. While you are here, Mr Bowen, you might be the best person to answer this question. We have had dialogue—mostly in the parliamentary departments, but I did raise it with Senator Minchin, and he got a bit hot under the collar with it—about the potential savings coming out of the Podger review. Andrew Podger was the parliamentary commissioner into the amalgamation of parliamentary departments.

I again preface my remarks by saying that, in the entire time I have been in the parliament, I have supported the amalgamation of departments. My problem is that, reading it at that time, I did not think that the savings were there and that the report was convincing. The minimum saving is supposed to be \$5 million, by the way, with a potential \$10 million.

We have now had evidence from the secretary of the department that less than \$2 million in savings was generated. That does not mean that we are going to get up here and say, ‘We told you so,’ or anything else. But I just wonder whether that makes you reconsider sometimes the way you latch onto potential savings. Do you understand what I mean? You did not do the review. Someone else did the review that estimated \$5 million. You either gullibly or cynically accepted that figure without proper examination, I would assert. You charged the department the \$5 million for increased security stuff and they have not been able to generate savings. What you have obviously missed is that they have been forced to find the \$3 million in savings somewhere else that you had not identified.

Dr Watt—I do not think the department does anything gullibly or cynically.

Senator ROBERT RAY—Doesn’t it? That leaves a worse prospect for me, Secretary.

Dr Watt—Savings estimates are matters of judgment. There is always an element of art as much as science. Sometimes it is hard to do estimates with accuracy. But I do not think there is gullibility, cynicism or, necessarily, fault in the officers who were involved in the original estimate. They are just tough sometimes. Circumstances may well have changed over the last three or four years—without having had a good look at the current information from parliamentary departments. A lot of things can change.

Senator ROBERT RAY—It is interesting that the staffing appropriation committee, the President and the secretaries all argued that these savings were bogus and could not be achieved. They have been proved right—that is all. It is a more difficult thing, you understand, as a concept than where you deduct the savings and you do not have to drive them, because you think they are there without really establishing they are there.

Dr Watt—I am not sure that it is more difficult, frankly. The real issue is this: any entity looking for savings is more likely to find them if they are taken out up front, as we do in all of our savings measures, rather than on a ‘we’ve achieved them’ basis. That is standard practice; it is not particular.

Senator ROBERT RAY—No-one is going to dispute the basis, Dr Watt. I accept that. But other people were exercising judgment and saying: ‘Department of finance, you are wrong here. The savings will not occur. This is more of a symbolic thing.’ What was hinging on it was the funding of security in this building, mostly but not exclusively to protect the ministerial wing. Every other government agency got funded for their expansion of security. It is just of concern to me.

Senator Minchin—Just for the record, the original savings figure mooted was as a result of that independent review, I think, of the consequences of a merger. Finance was asked to verify it.

Senator ROBERT RAY—No, you latched onto it. We all said it was not true. You got angry with me—

Senator Minchin—Whichever way rhetorically you want to describe it, all I am saying is that the origin of the mooted figure was not Finance; it was this independent review.

Senator ROBERT RAY—No, it was not at all Finance inspired. Quite properly, the Presiding Officers were looking towards amalgamating. You assert—and I agree with you—that it is an obsolete concept to have so many departments. It was just that it was argued that these savings were there and we could see that they were not there. We just knew they were illusory. Yet you went ahead, clipped them for the money and they are now caught short. I have one last question. I know that you are going to argue here in the answer that this is all in the mists of time, but progress occurs. Can you at least explain to me why the parliament is paying for all of the communications—all of the telephone calls and faxes—out of the ministerial wing? You are now, in the modern day, ascribing costs properly. This is a demand-driven thing—it is not even a set cost like rent. Here you are with a free lunch over there—a free ride. Why? It runs against the whole Finance philosophy.

Dr Watt—I think you have given us the answer, Senator—it is historical.

Senator ROBERT RAY—You are all the time revising history. That is why we have accrual accounting now.

Dr Watt—I do not think that we have ever revised history, Senator, in the sense that you imply.

Senator ROBERT RAY—No, not revised in a bad way; you have changed history. You have moved things forward. You have gone to accrual accounting. But on this one, the poor old parliament is paying for ministers’ phone calls—all those press secretaries ringing up leaking stuff—and we pay for it here.

Senator Minchin—They are funded to pay for it and they are sensitive about us taking away functions from them, as you know.

Senator ROBERT RAY—I do not think that they would be sensitive to your taking away the payment of your telephone bills.

Senator Minchin—You are suggesting to me that they would be happy if we took that function from them, are you?

Dr Watt—And the money, Senator?

Senator ROBERT RAY—Let us say that the parliamentary departments charge you rent—a fixed fee. This is a demand-driven one that can go up and down. There might be some base funding originally put in and, yes, I would not mind if you took the base funding away. I accept that argument.

Senator Minchin—We will take note of that suggestion and—

Senator ROBERT RAY—But if for some reason it doubles you do not get charged.

Senator Minchin—I am happy with that.

Senator ROBERT RAY—There is no accountability for the use of those resources.

Senator Minchin—That is a fair point and I am happy to pursue it.

CHAIR—There is nothing wrong with being a professional revisionist, Dr Watt.

Dr Watt—Up to a point, Senator.

Senator MURRAY—Whilst you are on the topic, Minister, you said that the parliament is funded for it. I was not sure that that was so in the precise sense. Do the ministerial officers separately identify the telephone costs and everything? Is it an identified line item which they can then say they are funded for?

Dr Watt—I would be very surprised if there was a line item in the parliamentary budget for that issue. I think the minister meant that that was the base level of funding given in parliament to all agencies and that, when it was set up, it had in it a component for telephones. You might remember that if you go back 15 years we used to do a line item in the budget where you would have telephones, postage and so on, and there was a component in there for that. That base has not been taken away, and I think that is more the point.

Senator MURRAY—So it would be difficult for DOFA to establish what the ministerial cost is in this area?

Dr Watt—I suspect so, though I do not know that we have an expert with us. Ms Mason might be able to help you.

Senator MURRAY—I am not looking for a figure now. I just do not know—

Dr Watt—What we may be able to tell you—and I say ‘may’ because this goes back a long way—is what was originally in the base and how that has been indexed over time, but I would need to check that.

Ms Mason—I cannot help you with a base figure but I can tell you that the arrangements for payment of telephones in the ministerial wing were included in or covered by a memorandum of understanding entered into by then Minister West and the Presiding Officers. I understand that the basis for not separating out ministerial wing telephone costs was that it would be difficult to determine which calls related to a minister’s capacity as the minister and which might relate to their capacity as a parliamentarian.

Senator ROBERT RAY—I knew that Minister West had done it—do not think that I am under any misunderstanding.

Senator Minchin—I would like to talk to the Presiding Officers about it to see if there is a better way to do it.

Senator ROBERT RAY—Only because of the change in accounting and the processes.

Senator FAULKNER—My first question relates to the issue that I have canvassed before, Dr Watt, and it goes to the issue of advice on electoral issues. I have heard evidence in a previous estimates around policy advice on electoral matters being sourced in the department as well as in the Australian Electoral Commission. I wondered whether that was still the situation in the department. What resources are being utilised in that area?

Dr Watt—It is certainly still the situation. Mr Hutson, head of our corporate area, can answer that.

Mr Hutson—Yes, we do maintain an electoral policy advisory function within Corporate Group to advise the minister on electoral policy issues. We gave evidence at the recent hearing into the legislation which is presently before the parliament concerning electoral policy matters. Mr McAuley, to my right, is the branch manager responsible and he has electoral policy within his branch.

Dr Watt—Amongst his many responsibilities, it is fair to say.

Mr Hutson—Indeed—amongst a variety of responsibilities. I will ask him to tell you about the resources that might be employed to the task.

Mr McAuley—We have a small unit called the Policy Advice Unit that consists of, at present, three people who provide electoral policy advice to the Special Minister of State. We consult under a protocol, a copy of which I think was distributed some years ago to opposition members. We work with the commission to ensure that any policy advice we provide is consistent with the act and can be implemented.

Senator FAULKNER—I certainly hope you would operate consistent with the act.

Dr Watt—I am sure we do.

Senator FAULKNER—Dr Watt would be shocked if that was not the case—wouldn't you, Dr Watt?

Dr Watt—I would be surprised. But I am occasionally surprised!

Senator FAULKNER—You say the protocol was distributed to the opposition. I have some recollection of this but it is in the mists of time now. Has the protocol been changed since it was originally drawn up?

Mr McAuley—No, it has not.

Senator FAULKNER—Who drew up the protocol?

Mr McAuley—Finance drew up the protocol, in consultation with the AEC and the minister's office, and it was signed by the secretary and the Electoral Commissioner.

Senator FAULKNER—The then secretary and then Electoral Commissioner?

Mr McAuley—I believe so, yes.

Dr Watt—I believe it pre-dated me.

Mr McAuley—I think it was Dr Boxall.

Senator FAULKNER—What was the date of the protocol?

Mr McAuley—I might have to come back to you on that. I do not have a copy of it with me. We can certainly find that out very quickly.

Senator FAULKNER—Are you saying that the protocol was tabled at this committee?

Mr McAuley—No, I think it was distributed outside of this committee. I can get you the list of people it was distributed to, but it was certainly distributed to the opposition and the Independent members.

Senator FAULKNER—I certainly have a recollection that I have sighted such a protocol, but how it came to my attention I am not entirely sure now. You think it was done by correspondence to a range of people?

Mr McAuley—I believe it was, yes. I can check that for you.

Senator FAULKNER—In relation to changes of personnel and the like, an example I am close to would be shadow ministerial arrangements—they change from time to time. A new shadow special minister of state might be unlikely to have any background in relation to the significance and content of the protocol. I am sure you would appreciate that, Dr Watt. Is that a problem?

Dr Watt—I cannot see a big problem, no.

Senator FAULKNER—You are across the content of the protocol then?

Dr Watt—In a very general sense.

Senator FAULKNER—Could you just outline to the committee what it is?

Dr Watt—I would like Mr McAuley to do that. He is much closer to it; he lives and breathes it.

Senator FAULKNER—I am interested in your general understanding of the contents.

Dr Watt—My general understanding of it—as I said, that is only in a very general sense—is that it divides the responsibility for advice on electoral issues and electoral matters between the AEC and the Department of Finance and Administration. It sets out arrangements for consultation between them and for communication between them, ensures we do not get in each other's way and gives a sense of what each party will do and how they will be consulted. It is a short, sensible protocol.

Senator FAULKNER—Have you considered if there is any need for updating of the protocol?

Dr Watt—I have not, no. I would like to ask my staff if there have been any discussions or any thoughts about that.

Mr McAuley—We certainly are considering that, and we have raised it with the Electoral Commission. We have also mentioned it to the minister's office. We have done that, I guess,

in the light of the Uhrig recommendations; and we would just like to revisit it. I do not expect that the details of the protocol would change very much. It would be very much at the margin, I would expect.

Senator FAULKNER—For the completeness of the record it might be useful for the protocol to be tabled at this committee. I am sure there is no problem with that.

Dr Watt—Subject to the minister being happy.

Senator FAULKNER—Yes. I do not think he is even listening, let alone unhappy. He is very relaxed. He is checking his media coverage; all of it is, I hope, very positive, Minister.

Senator Minchin—I am actually checking Senator Heffernan's media coverage.

Senator FAULKNER—Are you happy for the protocol to be tabled?

Senator Minchin—I am sorry, I have not been following the discussion. I would like to talk to the Special Minister of State, who has the direct responsibility, but I have no immediate objection. We will have a look at that.

Senator FAULKNER—I believe I have sighted it at some stage. I was not certain whether it had been tabled here or had been provided to the opposition members or obtained by them in another way. The witnesses are not entirely sure how it might have been communicated, and that is fair enough. But, for the completeness of the record, it might be useful to have it tabled.

Senator Minchin—I will discuss it with the Special Minister of State.

Senator FAULKNER—It is not a secret document and it ought not be a secret document. Senator Murray, who is a long-term member of the Joint Standing Committee on Electoral Matters, is more likely than I to have knowledge of whether it has been tabled at that committee.

Senator MURRAY—I do not know. I am aware of its existence, and I would assume it would be an open document. If I might, I will request that the minister, if able, come back prior to the AEC's evidence; that would be useful.

Senator Minchin—I will see what I can do, Senator Murray.

Senator FAULKNER—Mr McAuley, do you have three or is it four electoral matters policy advisers working in DOFA?

Mr McAuley—At the moment it is three. And I also spend part of my time, obviously, oversighting the unit. So there are three, not including myself.

Senator FAULKNER—Historically, the government responses to, let's say, the Joint Standing Committee on Electoral Matters report have been prepared by the Australian Electoral Commission. Is that right?

Mr McAuley—No. My understanding is that we prepare the Cabinet submission, including the government response.

Senator FAULKNER—The Policy Advice Unit prepares such things as the government response now, doesn't it?

Mr McAuley—Correct. But we work very closely with—

Senator FAULKNER—When was the Policy Advice Unit in DOFA established? It was comparatively recent, wasn't it?

Mr McAuley—Yes. It was about the time of the merger of the Department of Administrative Services and the Department of Finance. Prior to the Department of Finance and Administration, it existed in the old Department of Administrative Services.

Senator FAULKNER—So, prior to the establishment of the unit—

Dr Watt—I think we need to take that on notice. We will check when it was set up.

Senator FAULKNER—Anyway, it is definitely a function of the unit now. There is no doubt about that, is there?

Mr McAuley—Correct. In consultation, of course, with the AEC, as you would expect.

Senator FAULKNER—I see. Is there currently work under way on a government response to the most recent report of the Joint Standing Committee on Electoral Matters?

Mr McAuley—That is correct, Senator.

Senator FAULKNER—It is under way?

Mr McAuley—Correct.

Senator FAULKNER—Do you have any idea when that is likely to be submitted to ministers for consideration?

Mr McAuley—Not at this stage. We are working with the AEC and the minister's office on putting together a response.

Senator FAULKNER—Can you remind me of when that report was tabled?

Mr McAuley—I do not know the exact date but, from memory, I think it was February. I will confirm that date for you.

Senator MURRAY—Dr Watt, I have noticed that government responses are a little erratic and inconsistent with respect to responding to minority positions in reports—sometimes they do and sometimes they do not. I know that with respect to the Joint Standing Committee on Electoral Matters report, there were two thoughtful minorities, if I might say so: one from Labor and one from the Democrats. Obviously it is up to cabinet how it decides to report, but could you perhaps take on board in your draft the thought to consider whether those minorities should be responded to. I will not ask for a commitment here, obviously, because that would not be the proper thing to do. Sometimes government does and sometimes it does not, depending on the reports. Of course, sometimes, minorities are not worthy of a response, because they do not have a recommendation which is relevant. But I know that those two minority reports were quite extensive. I would just make that request.

Senator Minchin—You could raise that with the Special Minister of State. It is his responsibility to decide what he brings to the cabinet.

Mr McAuley—I would like to correct the record. I think I said February and I believe, looking back at some information, that it was tabled on 10 October.

Senator FAULKNER—That is what I thought it was.

Mr McAuley—I was confusing it with something else.

Senator ROBERT RAY—So we have missed the three-month deadline.

Senator SHERRY—Yes.

Senator FAULKNER—The government response is in fact late—as usual.

Senator FORSHAW—Is it with the cabinet or is it still in preparation?

Mr McAuley—It is still in preparation.

Senator FAULKNER—We look forward to it—but I am not sure that I actually do look forward to it.

Senator FORSHAW—It is an important report.

Senator FAULKNER—We await it.

Senator FORSHAW—It would be a bit irrelevant.

Senator FAULKNER—Indeed, given the legislation.

Senator FORSHAW—That is right—and given that the committee has examined the bill.

Senator FAULKNER—Dr Watt, I read some newspaper articles earlier in the month—often a source, as you know, for questions at a committee like this. These articles related to—
to use the terminology used in a newspaper—‘the email that got away’. Allegedly this related to a leaked email from an officer of your department who had been seconded to the Solomon Islands. Do you know of the issue to which I am referring?

Dr Watt—I am familiar with the issue.

Senator FAULKNER—Are you able to confirm to this committee that an email from a Department of Finance and Administration officer to the Department of the Prime Minister and Cabinet was leaked?

Dr Watt—No, I am not able to confirm that at all. Finance has three officials in the Solomon Islands as part of the regional assistance mission to the Solomons. They are part of the Financial Management Strengthening Program. The deployed staff play an important role in developing capability and helping reduce some of the irregularities, amongst other things, that have gone on in past years and so on with budgeting. A Finance official deployed under RAMSI sent a private email to some of his Finance colleagues.

Senator ROBERT RAY—To where?

Dr Watt—To some of his Finance colleagues—

Senator ROBERT RAY—Not PM&C?

Dr Watt—no—including to a Finance colleague in the Solomon Islands. The views in the email drew on the individual’s recollection of a private conversation. They were not part of the individual’s normal reporting to Finance, nor were they sought by Finance. An inquiry by the Department of Foreign Affairs and Trade and Finance have investigated the source of the email and have determined that it appears to have been illegally accessed and printed from a computer of a RAMSI deployee in the Solomon Islands. It was not circulated in Canberra.

Senator FAULKNER—There is no doubt that this email has become public. Let us put aside the word ‘leaked’. It has become public.

Dr Watt—It has become public.

Senator FAULKNER—It is at least fair to say that.

Dr Watt—It is fair to say that the email has become public.

Senator FAULKNER—I have read about the email in the media.

Dr Watt—It is not fair to say that it has been leaked in the normal use of the word.

Senator FAULKNER—I just want to get the right terminology. I accept that. It is in the public arena. It is in fact public in the Solomon Islands as well. That is true too, isn’t it?

Dr Watt—That is correct.

Senator FAULKNER—It has been a matter of some discussion if not disquiet in terms of domestic politics in the Solomon Islands.

Dr Watt—I do not comment on domestic politics in the Solomon Islands. It is not my bailiwick. It is public in the Solomon Islands.

Senator FAULKNER—Senior political figures in the Solomon Islands have made public comment on it. Would you agree with that?

Dr Watt—It may well be the case, but it is not something I normally focus on.

Senator FAULKNER—You may not focus on it, but surely someone has made you aware of it.

Dr Watt—I am aware of the issue.

Senator FAULKNER—Two Prime Ministers in fact have made comment on these matters.

Dr Watt—I think one was a Prime Minister elect, wasn’t he?

Senator SHERRY—He was about to be sworn in.

Senator FAULKNER—A Prime Minister and then another Prime Minister—

Dr Watt—He had not been sworn in.

Senator ROBERT RAY—I think ‘Prime Minister designate’ is the absolute term there.

Senator FAULKNER—I think that ‘two successive prime ministers’ is actually more accurate.

Dr Watt—I am aware that the email is public.

Senator FAULKNER—So it was a private email. Is that correct?

Dr Watt—Yes.

Senator FAULKNER—Can you explain for the benefit of the committee what action the department has taken as a result of this email becoming public?

Mr Bowen—I am happy to talk to that. The official concerned has returned to Canberra. That course of action was agreed between DFAT and us as the most appropriate thing to do.

Finance deployees in the Solomon Islands have been reminded that they are not to use email for the relaying of any sensitive information, whether it is private or business information. They are to use confidential channels through the High Commission in the Solomon Islands.

Senator FAULKNER—For private emails?

Mr Bowen—Not for private emails. They are not to send sensitive information.

Senator FAULKNER—But this was a private email. That is true, isn't it?

Mr Bowen—It was a private email.

Senator ROBERT RAY—Which had sensitive information in it—that is the best way to designate it.

Mr Bowen—It was a private email of an individual's reporting of his views. That is what it was.

Senator FAULKNER—Yes.

Mr Bowen—It was nothing we sought and it was not part of the normal reporting.

Senator FAULKNER—So it was not a DOFA or government email address?

Mr Bowen—It was the individual's email address in the Solomon Islands. It was the normal email that he would have used from his desk, but it was not an official email.

Senator FAULKNER—So it was a private email on an official address?

Mr Bowen—That is true.

Senator ROBERT RAY—Which went in a private capacity to the official addresses of Finance officials?

Mr Bowen—Yes.

Senator JOYCE—Mr Chair—

CHAIR—Yes, Senator Joyce?

Senator ROBERT RAY—We have noted your cufflinks. Do you have anything else to contribute?

Senator JOYCE—I want to ask a question when I get the opportunity.

Senator FAULKNER—It is still not clear to me what the department did when this became public. What action was taken by the department?

Dr Watt—The department did a number of things. Obviously, it consulted with the Department of Foreign Affairs and Trade on the issue. In conjunction with the Department of Foreign Affairs and Trade and with our deployees in the Solomon Islands it launched an investigation to ascertain the circumstances under which the email became public information. In consultation with the Department of Foreign Affairs and Trade the department took the decision to withdraw the deployee from the Solomon Islands. An important part of the reason for that was the concern for the deployee's safety and also about the deployee's ability to do his job on an ongoing basis in light of the event. As I said, we have reminded our deployees of the potential sensitivity of all communications—public or private—which they

may undertake, because it is difficult to distinguish the private person from the public person in these circumstances.

Senator FAULKNER—Did you make the decision, Dr Watt, to launch an investigation? Was that a DOFA decision?

Mr Suur—The investigation was launched by me after discussion with Mr Bowen and Dr Watt.

Senator FAULKNER—Who conducted the investigation?

Mr Suur—The investigation was conducted internally by our e-Solutions Group. They looked at various logs that had to do with the email that was received in the department, to see how it was treated once it had been received.

Mr Bowen—And in the Solomons.

Mr Suur—That investigation was conducted separately by the head of the group under RAMSI within which the Finance officer worked. A separate report was done for the head of RAMSI about how the email was treated in the Solomon Islands.

Senator FAULKNER—So there were two investigations?

Mr Suur—Yes.

Senator FAULKNER—One based here with your our e-Solutions Group and one effectively RAMSI based?

Mr Suur—Yes.

Senator FAULKNER—The conclusion was drawn that this was improperly accessed—is that the correct terminology, Dr Watt?

Dr Watt—That is correct.

Senator FAULKNER—Which one of these inquiries came to that conclusion? Or was it both?

Mr Suur—By the investigation that took place in the Solomon Islands. The email that came to Finance was not distributed out of Finance; neither was it printed.

Senator ROBERT RAY—I am not clear on this. Presumably only one email, or one copy, was sent to one individual in the Solomons.

Dr Watt—They were slightly different emails.

Mr Suur—They were different in the sense that the email that was distributed in the Solomon Islands was distributed the day after the email was sent to Canberra, and it had a tag line at the top that said, 'This email contains sensitive information; please do not distribute it.'

Senator ROBERT RAY—By the very nature of the difference between the two emails—discounting other evidence—were you able to determine which one was leaked?

Mr Suur—Yes.

Senator ROBERT RAY—You were able to do that? Well done.

Mr Suur—Because the emails were different. The email distributed in the Solomon Islands had a different tagline at the top.

Senator ROBERT RAY—It must be reassuring to you that no-one in Australia accessed it, but not very reassuring if it only went to one source in the Solomon Islands.

Dr Watt—To the best of our understanding—and I will ask Mr Suur to follow up on this—the email was accessed from the deployee's computer while the deployee was not present.

Senator ROBERT RAY—Does this raise questions of secure handling? I presume other, more sensitive material may have come through this computer.

Dr Watt—It does raise a number of questions about the potentially sensitive issues that employees might handle. Having said that, they are working in the Solomons department of finance and treasury and they handle Solomon Islands material most of the time, which is sensitive to the Solomons and sensitive to them, of course. But we would have different standards of treatment from the Solomons.

Senator SHERRY—On that, one email was accessed. Was a check carried out to see if other information or communications were accessed in the Solomons?

Mr Suur—My understanding is that the system administration in the Solomon Islands is such that it is difficult to print out or get visibility on logs to the level that you would in Australia, so it is very hard to track what has happened with emails, how they have been opened, how they have been accessed and whether or not they have been printed. One of the things that we did as soon as this incident happened was that we asked our deployees to ensure that any sensitive information on their computers in the Solomon Islands was deleted. We have asked them to ensure that, in the future, sensitive information is appropriately protected on the PCs that they work on.

Senator SHERRY—So you have not been able to verify whether or not more than one email was accessed?

Mr Suur—No, we have not been able to do that.

Dr Watt—But it is fair to say that our deployees' computers are not loaded up with sensitive information that would be sensitive as far as the Solomons are concerned. They are not. This was a personal email commenting on unusual circumstances.

Senator FAULKNER—Was the computer that was accessed the computer of another Department of Finance and Administration employee?

Mr Suur—Yes.

Senator FAULKNER—Another one of the three that you have seconded over there?

Mr Suur—Yes.

Senator SHERRY—Presumably there is a security code even for a personal communication. Did you investigate how the normal personal security code identification was accessed?

Mr Suur—My understanding is that password protection had not been activated on that PC.

CHAIR—Does anyone else have questions on this issue?

Senator JOYCE—I have a question on the use of ethanol blended fuels and the government fleet vehicles.

Senator FAULKNER—Hang on! Wouldn't it be better to finish this?

CHAIR—Yes. That is why I asked. Senator Joyce, do you have any questions on this specific issue?

Senator JOYCE—No.

CHAIR—Okay, then we will stay with this for the moment.

Senator FAULKNER—You said that the computer that was improperly accessed was not password protected. Is that right?

Mr Suur—Correct.

Senator FAULKNER—Does the department have protocols in relation to these sorts of matters? I am thinking here of two general areas. One is the whole issue of personal emails and the second is the protection of information by password protection and the like. I am sure you do have IT protocols, and maybe you could share them with us.

Dr Watt—Let us take the personal emails first. This operation was not on a Finance computer but on a computer in the department of treasury and finance in the Solomon Islands. With that thought in mind—

Senator FAULKNER—So there is also the distinction, which I think Dr Watt properly draws to the attention of the committee, of whether there are employee protocols as well.

Dr Watt—Mr Staun can probably talk about our email protocols.

Mr Staun—First of all, physical security over a computer in the department of finance requires log-on and password access. Employees have the capacity—and it automatically shuts down after 10 minutes—to have a screensaver that protects the computer so that, for instance, people wandering past cannot look at what is on the screen. With regard to emails, we have protocols regarding the proper use of emails. We do not preclude the use of the email system for personal purposes, such as communicating with friends or whatever. As for internet access, again we have quite strict controls and protocols on what sites may be accessed and so on.

Senator FAULKNER—You have indicated to the committee that the employee concerned came back to Australia. Did that happen pretty urgently?

Dr Watt—Yes—in part to make sure there were no questions about his own physical safety in what was still a pretty turbulent environment.

Senator FAULKNER—Was any consideration given to taking any disciplinary action against either the employee who was responsible for writing the email or the employee where the email was received and improperly accessed, or has the matter not been resolved in that way?

Mr Bowen—No disciplinary action has been taken or is intended to be taken.

Senator ROBERT RAY—Has there been any issue of regrets to the high commissioner, Mr Cole, over the incident?

Mr Bowen—I have written to the department of foreign affairs and expressed regret that this happened and explained from our end what we have done, hopefully to ensure that nothing like this can happen again. So, yes, we have, and there have been conversations with the high commissioner. I think Mr Suur has had conversations with the high commissioner.

Mr Suur—I have not spoken to the high commissioner. I have spoken to the head of RAMSI, Mr Batley, about this matter on a couple of occasions and have expressed my regret that this matter happened to him as well.

Dr Watt—We do regret that this occurred, and quite seriously regret it. Finance is in the Solomon Islands and I think our people have been widely regarded as doing a useful job there. We are strong supporters of the work they are doing, and we do deeply regret that this incident occurred.

Senator ROBERT RAY—Have you replaced the finance officer who has been redeployed to Australia?

Mr Suur—A process is under way at the moment to replace all of the finance deployees who were in the Solomon Islands, because they are variously finishing their postings over the next three to four months, but an officer has not been deployed to replace the officer who came back last month as a result of this matter.

Senator SHERRY—Dr Watt, you mentioned earlier that the computer was in the Solomon Islands department. Were the Australian Finance officers who have been there involved in establishing the system in any way?

Mr Suur—No.

Senator SHERRY—Coming back to the question of disciplinary action, was no disciplinary action taken because it was concluded that the officer was not at fault or because it was concluded that the officer was at fault but the level of responsibility did not require disciplinary action?

Mr Bowen—I think we took the view that this was a personal issue, a personal email. There was perhaps an issue of judgment involved but there was not a deliberate intent for this to get out—there was no malice. We do take these sorts of issues into account when we do our performance assessments of people, but I think that is the more appropriate forum to consider it in rather than as a disciplinary issue per se.

Senator FAULKNER—Minister, my general impression, having asked the questions—and my colleagues having asked questions—and having listened to the answers, is that the response of DOFA seems to be pretty balanced and sensible. In the circumstances, it seems to me to be a far more mature way of dealing with an issue like this than we saw, for example, in one very notorious case in the Department of Foreign Affairs and Trade. I wanted to publicly acknowledge that and, perhaps in doing so, seek Dr Watt's assurance—having handled the matter the way the department has—that he is confident that all that can be done by the department to ensure that there is no reoccurrence of this sort of situation has been done.

Dr Watt—I could never say that with perfect confidence, Senator, as you know, in an imperfect world, but I am reasonably confident that we have done all we can to ensure that there is no recurrence. It has been an unfortunate experience for us and an unfortunate experience for our deployees. I think the measures that we have put in place, along with the memory of that experience, will see that this does not reoccur.

Senator FAULKNER—It is a pity that the Department of Foreign Affairs and Trade does not have a similar approach.

Senator Minchin—I would like to thank Senator Faulkner for his observations and say that I have complete confidence in the way DOFA has handled this issue. It was unfortunate. I visited the Solomons late last year to touch base with the Finance deployees there, who are working under difficult conditions and doing an outstanding job—including Mr Shannon. I think both government and industry have a problem with perhaps too many people putting things in emails that they should not. I think this is a rather widespread issue, actually. This incident has served a useful purpose in reminding everyone of the need for extreme caution in what is put in writing. Again, I thank Senator Faulkner for his remarks.

Senator FAULKNER—Minister, we expect the Department of Finance and Administration to show some leadership on these sorts of issues. As I say, it stands in stark contrast to the appalling performance of the Department of Foreign Affairs and Trade on a not completely dissimilar matter.

Senator SHERRY—I want to go back to some earlier comments from, I think, Mr Suur. The computer, apparently, was left on and the officer was not at the desk when it was accessed, so therefore it was not secured. It seems to me that it would not be unusual for any departmental official to leave their desk and for the computer to be left on, whether it is within the department here, somewhere overseas or in some other location. It seems to me that that is difficult to expect in all circumstances.

Dr Watt—It is difficult. As I understand it, one of the differences between our arrangements here in Canberra and the arrangements in the Solomons is that we have external security in Canberra which is able to stop people who are not members of the department being in the department unescorted, and that is not the case in the Solomons.

Senator SHERRY—Presumably access to the room in which the officers work is much more open.

Dr Watt—It is open to anyone who has legitimate or other business in the department.

Mr Suur—I would also make the point that this was on the day of the riots, and the deployees gathered together to make a judgment about whether they would stay in a government building or go home. Usually prudence would govern people behaving in a different way. In this case they were special circumstances, and it is a bit hard to equate a normal office environment to the circumstances that related to that office on that day.

Senator FAULKNER—All they needed to do, Mr Suur, was stay in the building and stay close by the computer.

Mr Suur—Thank you, Senator.

Senator SHERRY—It raises an interesting issue for whole of government, doesn't it? Not turning off your computer and having it secured when you leave your desk is more than likely, I would have thought, going to occur on a fairly regular basis across the whole of government, no matter where you are. A tax office official working away from the office for some reason may unfortunately leave their computer on.

Dr Watt—It is a risk. That is why we all have a screensaver system which means that after a period of time when the computer is not accessed the screensaver cuts in and bars access. However, that screensaver is not immediate. You can get up to get a cup of tea and your computer is vulnerable. We then have physical security to help protect as well.

Senator SHERRY—There is a level of risk that you can only minimise. You cannot give a guarantee in all circumstances, particularly the circumstances that occurred.

Mr Staun—However, Senator, in the department of finance there is an icon at the bottom of the screen, and our policy is to encourage staff, whenever they get up from the computer, just to click on that icon and it automatically locks it down.

Senator SHERRY—I would be interested to see, if you did a survey, how often that occurs and whether it occurs in all circumstances.

Mr Staun—I would say it is not uncommon.

Senator SHERRY—That is right; that is what I am getting at. It just seems to me reasonable, in the circumstances, the way the issue has been handled. Dr Watt, you referred in passing—and these were not your words—to failings in the financial management in the Solomon Islands. Presumably the officers provide reporting on the issues they identify in that regard. Is that to the department of foreign affairs?

Mr Suur—The Finance officials are deployed under RAMSI. There is a chain of command under RAMSI, and the RAMSI chain of command generates regular reports back to Canberra about the progress on a range of issues and in a range of sectors, including law and justice, the finance sector and so on.

Senator SHERRY—Dr Watt referred in passing to the finance difficulties. Are they publicly available at all?

Mr Bowen—Those reports?

Senator SHERRY—Yes.

Mr Bowen—No, they are not public records.

Senator SHERRY—Is there any overview that has been published of the financial failings in the Solomon Islands?

Mr Suur—Not that I am aware from RAMSI, but there have been other reports by multilateral agencies, for example, that have evaluated the economic circumstances in the Solomon Islands and looked at its long-term economic issues.

Senator Minchin—Mr Chairman, before we move on, I undertook on behalf of the ANAO to report this morning on their response to Senator Brandis's questions with regard to Centenary House. ANAO have supplied me with an answer and I would be happy to table that for the benefit of Senator Brandis and the committee.

CHAIR—Thank you, Minister. I will make Senator Brandis aware of that as soon as I can, Minister. Senator Joyce, you have some questions.

Senator JOYCE—As you are aware, the Prime Minister on 22 September 2005 stated that the government would demonstrate its confidence in ethanol blended fuel by encouraging users of Commonwealth vehicles to purchase E10 where possible. Following up my colleague Senator Boswell's strong concern about this matter, to make sure that the government takes a lead in dispelling this myth that E10 is somehow damaging to vehicles and to show that we have complete confidence by putting it in our fleet of basically new cars, can you tell me, so I can relay it to Senator Boswell, where we are with this?

Dr Watt—We can do that.

Mr Hutson—Senator, we have the Commonwealth Fleet Monitoring Body within the Corporate Group which is responsible for promoting the government's policy regarding the use of ethanol blended fuel in Commonwealth vehicles. Subsequent to the announcement by the Prime Minister, we have taken a number of actions to promote the use of E10 across the Commonwealth fleet, including a series of email advices to the 84 affected agencies concerning issues concerning the national availability of E10 and the supplier and fuel card arrangements to make E10 purchase as easy as possible, and also detailing a series of frequently asked questions and answers.

The secretary has also written to each department and agency head informing them of the government's E10 policy and that the government will demonstrate its confidence in ethanol blended fuel by encouraging users of Commonwealth vehicles to use E10 where possible. We have had a series of one-on-one meetings with the major fleet agencies regarding the E10 issue. There has been a series of articles in Finance, lease plan and Special Minister of State publications creating an awareness and promoting the policy, and we have put E10 information on Finance's website under the Fleet Monitoring Body. In addition to this, Senator Abetz issued *Parliamentary circular* 2005/36 about E10 to senators and members and to senior parliamentary staffers informing them of the policy.

In terms of the use of E10, availability continues to be the main impediment. There are 6,500 petrol stations in Australia and 230 of those have E10 available. Availability in Canberra is not bad: there are three BP and one United Petroleum stations which have E10 available.

Senator JOYCE—What percentage of our fuel now in Commonwealth petrol-driven vehicles is E10?

Mr Hutson—Since the government's announcement in September that number has risen dramatically. In October 2005 sales of E10 to departments and agencies was 2,270 litres or about 0.2 per cent. If I come forward to March 2006—I also have April figures but for some reason they peaked in March—it was 62,537 litres or 4.6 per cent of Commonwealth consumption.

Senator JOYCE—So 4.6 per cent of our total sales was E10.

Mr Hutson—They are the 2006 figures.

Senator JOYCE—How can we get that up to 100 per cent?

Mr Hutson—The major impediment at the moment is availability. There are three BP stations and one United Petroleum outlet in Canberra that use the fuel. There are some states, I understand, where E10 is not available at all.

Senator JOYCE—Have we contacted the oil companies to ask why they don't have a greater availability of E10?

Mr Hutson—I am not aware of our dealings with the oil companies on this issue but it is an industry-wide issue rather than simply a Commonwealth government fleet issue.

Senator JOYCE—In Canberra we just have three BP and one United with E10?

Mr Hutson—That is all we have in Canberra.

Dr Watt—What we have done, for example, is to work with United, which has E10 and which also has somewhat of a broader presence beyond Canberra, and we have allowed our clients or our customers or owners to use their fuel cards so they can use E10 from that source. That is the sort of thing we can do at the fleet level.

Senator JOYCE—Have we contacted the oil companies saying, 'We have a direct policy of using E10 and we would like you to pick up your game on this'?

Dr Watt—That is really one for the Department of Industry, Tourism and Resources. What we do is try to make sure that our people have access to those oil company firms that have E10 service stations.

Senator JOYCE—So where do the cars that are parked out front here fuel up?

Dr Watt—That is a question that I will have to get someone else to answer.

Senator Minchin—You are talking about Comcar?

Senator JOYCE—Yes.

Ms Mason—I assume that you are referring to Comcar vehicles on the parliamentary shuttle. Comcar vehicles, like the broader Commonwealth vehicles referred to by Mr Hutson, are able to use E10, and do, though not universally. We are able to use the outlets that Mr Hutson mentioned in Canberra, and in other locations we are also using E10. But what we will not do, for instance, is drive from one side of Sydney to the other to get E10. We would use an outlet that is close by.

Senator JOYCE—Take Canberra, for instance. We have got four outlets in Canberra that use E10—and I think that it is pathetic on behalf of the oil companies. Do we fill up these Comcars here in Canberra at those E10 outlets so that the other ones get the idea that if they do not provide E10 they are not going to get our business?

Ms Mason—Senator, Comcar in Canberra is certainly using E10 but not universally so.

Senator JOYCE—Can we move down in that direction, saying: 'If you do not provide E10 we are not going to do business with you. We will go to the service station that provides it'?

Ms Mason—Mr Sweeney may be able to assist you with that question.

Mr Sweeney—Sorry, Senator, I missed that question.

Senator JOYCE—It seems we are at 4.6 per cent, and that is admirable, but 100 per cent is where we want to end up. We have got four outlets in Canberra and I think a great way to suggest to them that they should be providing E10 is to go only to those outlets for fuel. Can we have a policy of saying, ‘If you do not provide E10, that is fine, but you will not be getting our business’?

Mr Sweeney—I can say at the outset that we have a policy of using E10 where it is available and where it is economically viable to use it—by that I mean efficiently. As Ms Mason said in answer to an earlier question, we would not drive from one side of Sydney to another to fill up. But in Canberra there are two United outlets and two BP outlets and, yes, we use them when that is on our radius of operation.

Senator JOYCE—So they are close. The only way to encourage the oil companies to do that is to say, ‘You’re not going to get our business unless you do.’ What percentage of our fuel in the Comcars would be E10? You might want to take that on notice.

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

Senator JOYCE—I would be very interested to know, to work out whether we can basically concentrate on those service stations, since it is our government policy and it has been put out by our Prime Minister that we use E10 and promote that. If we have to take the oil companies down this path kicking and screaming, then that is what we will have to do.

Mr Sweeney—I could add something and it may be helpful. We are using E10 where it is effective to do so. It is available in New South Wales, Victoria and South Australia as well.

Senator JOYCE—It is the chicken and egg thing really, though, isn’t it? If we start targeting service stations to provide it, that will be the encouragement for others to provide it. But if it is not convenient, if we do not go there, there is nothing to be lost and nothing to be gained if they put in E10 for us or not. Commonwealth vehicles are a large proportion of the market, as opposed to any other company. It would be good to see it promoted.

Dr Watt—We are not that big.

Senator JOYCE—What other companies would provide more vehicles than us?

Dr Watt—We may be large in that sense, but the reality is that we have a vehicle fleet of—I do not know how big—I guess, five million. That would not be far off.

Senator Minchin—Nationally, yes.

Dr Watt—It’s five million?

Senator Minchin—Yes.

Senator JOYCE—I am a bit old-fashioned but I reckon five million is a fair number of vehicles. I do not know many garages that—

Senator Minchin—No, that is the total Australian vehicle fleet.

Dr Watt—That is the national vehicle fleet.

Senator Minchin—We have 12,000 vehicles.

Senator JOYCE—Twelve thousand is still a huge number. What other company in Australia has 12,000 vehicles?

Senator Minchin—Telstra would have a lot more than that.

Senator JOYCE—That is another one we should have a yarn to. There is another question for Telstra.

Senator FAULKNER—Dr Watt, never answer questions that you do not asked. I thought you would know that.

Dr Watt—I do.

Senator FAULKNER—You broke the golden rule, didn't you?

Senator Minchin—No. Senator Joyce asked us about the size of the fleet—

Senator FAULKNER—He did, after Dr Watt's intervention.

Dr Watt—That was my guess.

Senator Minchin—That is the total national number of vehicles, of which we have 12,000.

Senator FAULKNER—Dr Watt, we have given you a tick today. You will get a black mark for that one.

Dr Watt—Thank you.

Senator FAULKNER—There is one other issue that I want to cover in general questions, if I could. It is something I have asked previously, Dr Watt, at this committee and at another estimates committee. Could you bring the committee up to date with the situation in relation to act of grace payments relating to the Iraq war?

Dr Watt—We can do that.

Mr Yarra—The situation with act of grace payments at the moment is that the Department of Defence has made three payments in respect of four Iraqi citizens. A payment of \$12,780 was approved in March 2005—that was \$6,390 each for two people.

Senator FAULKNER—That was in March 2005?

Mr Yarra—Yes. A payment of \$6,618 was approved in December 2005 and a payment of \$53,128 was approved in March 2006.

Senator FAULKNER—Let us go through those. So there were three payments covering four people, effectively?

Mr Yarra—Correct.

Senator FAULKNER—The first payment of \$12,780 covered two people. Are you able to say what that was for?

Mr Yarra—I can say in broad terms.

Senator FAULKNER—Yes.

Mr Yarra—In broad terms, they relate to compensation to Iraqis for injury or death of individuals involving incidents with Australian troops.

Senator FAULKNER—That goes for all four payments?

Mr Yarra—As I understand it, yes. I presume the larger payment related to a death.

Senator FAULKNER—I would presume that too, but I have learnt that it is dangerous to presume anything.

Mr Yarra—Correct. We should not presume.

Senator FAULKNER—No, we should not presume. But it is a reasonable assumption that such a large payout—\$53,128—is compensation for a death. What is the description you have there: is it for injury and death?

Mr Yarra—My description is ‘for the death of one individual and injuries to others in incidents involving Australian troops’.

Senator FAULKNER—When we talk about death here, do we mean accidental death?

Mr Yarra—Without presuming, I cannot confirm that. I will have to take that on notice. I would presume obviously that it was accidental death.

Senator FAULKNER—Yes, obviously it was an accidental death. In war zones people are killed but families do not receive compensation. Would a fair way of describing it be unintended injury and accidental death? Who has the detail of this? Is it you or the Department of Defence?

Mr Yarra—The Department of Defence.

Senator FAULKNER—But the actual approval for an act of grace payment rests of course with DOFA, doesn't it?

Mr Yarra—Correct.

Dr Watt—That is correct.

Senator FAULKNER—It rests with either the minister or the parliamentary secretary. Who has that job?

Senator Minchin—I have delegated that role to the parliamentary secretary, Senator Colbeck.

Senator FAULKNER—Yes, I thought that had been the case. So Senator Colbeck has that delegation?

Senator Minchin—Yes.

Senator FAULKNER—Have you put an upper limit on that delegation?

Senator Minchin—He acts in accordance with the act.

Senator FAULKNER—I understand that.

Senator Minchin—I have not formally restricted the delegation, no.

Senator FAULKNER—So if it was an act of grace payment of \$20 million he would still be—

Senator Minchin—I suspect he might discuss it with me before signing off on it, but he has the full authority under the act to oversee act of grace payments. But obviously, depending on the circumstances and the sums involved, he would discuss that with me.

Senator SHERRY—Presumably, in the normal course of events, wouldn't he 'cc' material to the minister anyway?

Senator Minchin—Sure.

Dr Watt—We ensure that the minister for finance is kept appropriately informed.

Senator Minchin—And obviously the department provides full advice to the parliamentary secretary on these matters.

Senator FAULKNER—Does that full advice include the circumstances?

Mr Yarra—It does. The advice includes sufficient information about the circumstances to enable a proper decision to be made by the parliamentary secretary.

Senator FAULKNER—Does it include a recommendation? You only receive these things if Defence believes an act of grace of payment is appropriate?

Mr Yarra—Those cases were passed through from the Department of Defence. We consider our advice, after consulting with Defence, and we make a recommendation to the parliamentary secretary.

Senator FAULKNER—But this level—the dollar value, the dollar figure—is determined by the parliamentary secretary on advice from the department of finance. Is that right?

Mr Yarra—I think that the actual determination of the number is in the Department of Defence. The role of the parliamentary secretary is to approve or not to approve the act of grace payment. But there is no capacity for the department or the parliamentary secretary to work out whether that number is the right or wrong number. It is done on the recommendation from the Department of Defence.

Senator SHERRY—Are you saying that the department of finance and/or the parliamentary secretary can have no say in the quantum recommended? Surely there must be circumstances where an act of grace payment application is made directly to the department of finance rather than through another department.

Dr Watt—It is important to distinguish that the normal act of grace payment that we deal with on day-to-day events is a request made by the individual concerned.

Senator SHERRY—Yes.

Dr Watt—Usually it is either through an MP or, sometimes, direct to the department. Sometimes it is direct to the minister. Sometimes it comes from the line department itself. They come up in a variety of ways, and there is access to independent information. These particular ones are not like that because the only data that is available to the department of finance is through the Department of Defence.

Senator SHERRY—But does the parliamentary secretary have the legal authority to vary the quantum if he wished?

Mr Yarra—The minister or the parliamentary secretary has all the power related to the matter, and it is just a question of how the parliamentary secretary chooses to deal with the matter.

Dr Watt—The point being, this is not a case where there might be independent information available to the parliamentary secretary, as is the normal course of events with act of grace payments.

Senator SHERRY—Yes, I understand that—unless, obviously, he chose to visit or send an officer to check out something on the ground, which would be unlikely, I concede, in these circumstances.

Dr Watt—If there were something extraordinarily unusual, that would be possible, I assume.

Senator FAULKNER—So the Defence act of grace payments are the only ones different in nature, as you have explained. I appreciate the point that you make about the fact they do not come from a claim by an individual. Are there any other categories?

Mr Yarra—Rehearsing the full breadth of categories, we have act of grace claims in relation to a whole range of issues. Mostly they come through from departments or MPs on behalf of constituents. In every case, the examination of the matter is done in consultation with the relevant department.

Senator FAULKNER—In the case of these four act of grace payments relating to death and injury in Iraq, did those moneys—

Senator Minchin—Three payments for four Iraqis.

Senator FAULKNER—Three payments for four cases—is that right?

Dr Watt—It was three payments for four individuals.

Senator FAULKNER—Did those moneys come from the DOFA vote or from Defence?

Dr Watt—Defence.

Mr Yarra—Department of Defence.

Dr Watt—And that is the case in all act of grace payments.

Mr Yarra—They will be recorded in the Defence annual report.

Senator Minchin—We do not have a separate pool of money ourselves. It is our authority that that money be released for that purpose.

Senator FAULKNER—So the parliamentary secretary is the releasing authority in this regard?

Senator Minchin—Yes.

Mr Yarra—Correct.

Senator SHERRY—In terms of the Department of Defence, the issue is the unique circumstance of the individuals dying in Iraq. For example, in Australia, a former defence department employee could apply for an act of grace payment individually directly through an MP. It does not formally have to go through the Department of Defence if it is in Australia.

Dr Watt—Correct.

Senator SHERRY—Defence may be consulted, which presumably they would be.

Mr Yarra—And if an Iraqi citizen were to apply directly, we would have to analyse that circumstance.

Senator FAULKNER—Given that the parliamentary secretary is briefed on the detail about the circumstances surrounding the act of grace payments, it is not clear to me why you cannot provide this committee with more detail relating to the circumstances surrounding the four individuals and three payments.

Mr Yarra—My sense of it is that, while we could provide the sort of detail the parliamentary secretary had in order to make a decision, the questioning would very rapidly get into the detailed circumstances, and we are not equipped to deal with that. Defence is best able to deal with the full detail of those individual payments and the circumstances arising, rather than the Department of Finance and Administration.

Senator FAULKNER—That is a fair point, but what I am interested in is the information on which DOFA based its decision. I understand that, beyond the detail that is provided to you, you are not able to provide the information or answer questions. That is a given and I accept that. It is perfectly logical. If I want to try to ask those sorts of questions I can go to the originating department, which is Defence, but what I am asking you to provide the committee with is the information which was provided to your department on which the parliamentary secretary based his decision to approve the three payments for four individuals.

Dr Watt—There are a couple of points to make about these: one, there are privacy issues, because the payments do concern an individual or individuals; two, due to the circumstances under which these act of grace payments are made it is not easy for the department to form an independent view, even it chose to, from what is provided by the Department of Defence. The circumstances are unusual in act of grace payments. In other payments we can and we often do, but in these ones we cannot. We are happy to take the question on notice and see what we can give you.

Senator FAULKNER—This might assist you, Dr Watt. I do not want to know the names of individuals—and I am sure you would understand that that is the case. I think there would be obvious implications if names were given. I do not expect it and I do not want it. But I would like a little more detail about what is a very significant payment of \$53,128. That is one of the payments. We know it is for one death and injury to, it appears, three others. It seems to me not unreasonable for DOFA, for example, to be able to say, for example—let me give you a hypothetical—that the death was the result of a motor vehicle accident or whatever. I am just talking about the broad information and background. I do not want personal detail. I agree with you that it would not be appropriate. But I am sure the department could do a little better than just saying ‘one death and three injuries’. Maybe you might reflect on that, have a bit of a look at that, and be able to distil a little more information for the committee in the hours ahead. That is not an unreasonable request, and I would ask you to have a look at that and perhaps come back a bit later in the day.

Senator Minchin—I am happy for us to look at it, but this is information provided to us by Defence.

Senator FAULKNER—That is right.

Senator Minchin—In a sense, this is Defence's information, and I would think—subject to our discussions—that it would be a matter for Defence to determine to what extent they can release it, rather than for us to determine that on their behalf. But we will discuss that with Defence.

Senator SHERRY—Minister, in these circumstances, the parliamentary secretary to you, as delegated, is directly responsible at the end of the day for the legal sign-off of all the act of grace payments. I see the material that is tabled. I could go to that material and say to you or to the parliamentary secretary, if he were here: 'What is this? What are the details?' I could do that; I could bring the list in. It does not seem to me that Senator Faulkner's request is inappropriate, given the process.

Senator Minchin—Except, presumably, what you are seeking is what incident occurred on what date in what part of Iraq.

Senator FAULKNER—No, I am not. I am asking for a little more information just so we have a bit more background than 'one death and injury to three others'—for example, 'death as a result of a motor vehicle accident' or whatever it might be. That is the sort of information I am asking for. I think I am asking a well-calibrated question that gives plenty of wriggle room for the department but also provides a more appropriate response than the minimalist details that have been provided. Anyway, I think you understand the parameters of the question. I hope you understand the spirit of the question. I will leave it with you.

Senator Minchin—We will discuss with Defence.

Senator SHERRY—Do we know whether Senator Colbeck was the responsible delegating officer at the time?

Senator Minchin—He would have been for the last one, I guess, but not for the first two.

Senator SHERRY—Surely he would have had in front of him a more detailed description than 'one death, three injuries, X amount'? I could not understand anyone signing off on the basis of that sort of description. Given he is legally responsible, through you, Senator Minchin, I do not think it is unreasonable. I look at the lists of payments that are tabled from time to time, and I have always held the view that it is being handled appropriately. This is not an attack on the parliamentary secretary or you; I just think Senator Faulkner's request is reasonable.

Senator Minchin—I am one who generally favours transparency on these payments, but we are dealing in a sense with the consequences of military operations in a theatre of war. So the extent to which we can release that information is, I think, something we need to discuss closely with Defence. We will enter those discussions with the spirit of seeking to obtain what information we can for release.

Proceedings suspended from 10.47 am to 11.07 am

CHAIR—I call the committee to order. We are on general questions.

Dr Watt—There are two points of clarification I would like to make regarding our discussions this morning. One is the timing of the establishment of the electoral policy advice unit in the Department of Finance and Administration. It was in fact July 2001. Mr McAuley had thought that it perhaps might have been a bit earlier than July 2001. Secondly, perhaps not

so much in the nature of correcting the record, in the intervening period I had a look at how many motor vehicles there are in Australia. Much to my surprise, there were 13.9 million motor vehicles identified in the 2005 census.

Senator SHERRY—Registered?

Dr Watt—I do not have information on that, Senator Sherry. Most of them look registered.

Senator SHERRY—I look for many things at Finance, and I am thrilled at your ability to access information. It is not information that I would normally have expected to come from you—but thank you nevertheless. They are Senator Joyce's questions. Dr Watt, I noticed in budget paper No. 1 at page 11-9 there is a statement of risk headed 'Litigation' which says:

The Department of Finance and Administration is involved in litigation where a counter-claim for damages has been lodged against the Australian Government. The counter-claim, which will be vigorously defended by the Australian Government, seeks damages of \$4.3 billion although the basis for this amount is yet to be fully provided.

Can I have a bit more detail about this? It does seem to me to be an extraordinary figure contained in the statement of risk. What is the dispute about?

Dr Watt—We can provide you with that information. As you would be aware, the dispute is not new; it has been going on for a long time. Mr Hutson can answer on our behalf.

Mr Hutson—Thank you. Perhaps I should make the general comment that there are a lot of matters here that remain before the courts, and for that reason I will be circumspect.

Senator SHERRY—I understand.

Mr Hutson—There are a number of actions that are pending. In particular, there are High Court proceedings, proceedings in Western Australia and a number of other proceedings. They all relate to a fraud against the department back in 1999.

Senator SHERRY—So this is just an update of a counterclaim seeking damages of \$4.3 billion. Who does that come from?

Mr Hutson—The information I have is that a number of the respondents are in various civil proceedings where the Commonwealth has undertaken to try to recover some of the money.

Senator SHERRY—Have we previously explored the names of the individuals or companies involved?

Mr Hutson—I do not believe we have.

Senator SHERRY—I am sure that is publicly available; I do not think that would be a matter of legal contention. If you have not got it here now, could you give us an update—

Mr Hutson—Sure.

Senator SHERRY—on the individuals and companies that are counterclaiming?

Mr Hutson—It would probably be easier if I take the question on notice.

Senator SHERRY—If you could provide that by the end of the day or something, I would appreciate it. Which parties are involved in making the \$4.3 billion counterclaim?

Dr Watt—What we have previously done on this matter, subject to the agreement of the minister for finance, is to provide the shadow spokesperson with a briefing outside the estimates committee, given that some of these matters are legal and potentially touchy. Subject to the minister's agreement, we would be happy to do that in this case.

Senator SHERRY—It would be great if you could because, as I say, the figure of \$4.3 billion really did spring out at me. I do not know what the basis is—there may be a bit of an ambit element in that. If you could give Mr Tanner an update, it would be greatly appreciated. I have one other set of general questions. We have discussed on previous occasions issues relating to staffing. Firstly, in the PBS you have detailed the increase in staff—it is mainly an increase—in terms of outcomes. Do we have an aggregate figure? I could not identify one for the total increase in staff estimated for 2006-07, as distinct from the estimated actual in 2005-06.

Dr Watt—We can provide that estimate.

Senator SHERRY—Thanks.

Mr Staun—What is your query?

Senator SHERRY—In the PBS, under the outcomes it has the estimated actual staff for 2005-06 and the budget estimate for 2006-07. Is there a total figure?

Mr Staun—No, I do not think so. Not in the model provided.

Senator SHERRY—That is right. That is why I am asking if you have a total figure.

Mr Staun—I can simply quickly add it up. Do you want me to do that?

Senator SHERRY—While you are doing that, I will go to the reason for the increase in staff numbers. An approximate calculation shows that it is probably 100. What are the reasons for this increase in staff numbers estimated for 2006-07?

Mr Staun—On page 40 there is a broad explanation for the increase in the average staffing level. Have you been taken to page 40?

Senator SHERRY—Yes, I have page 40.

Mr Staun—There is the gateway process review, the governance structures, the budget management system help desk and the recruitment of permanent staff to fill positions currently occupied by contractors. That is a broad explanation.

Senator SHERRY—In this area, for example, it appears to be the most significant increase in total staff—approximately 70 positions. With the item 'Recruitment of permanent staff to fill positions currently occupied by contractors', has there been some sort of policy shift in some areas, in terms of why we are no longer going to employ contractors versus direct staff? What is the rationale?

Dr Watt—Contractors play an essential part in the operations of our department, as they do in any government department these days, particularly in areas like IT skills, but not only in that area by any means. People who fill temporary vacancies and so forth are often contractors for that same reason. One thing we have wanted to do for the last four years is gradually work down the number of contractors where it makes sense. It has not always been possible to do.

There are two things that work here. One is that broad aspiration, although I suspect that is less important than the short-term imperative—where there is growth in an organisation often it is filled initially by contractors and you put in more permanent staff over time. I suspect that is the reason for that particular point. Another way of saying it is that we are probably not able to get as many permanent staff as we would like, with the speed we would like. The market is very competitive out there at the moment, as you would appreciate.

Senator SHERRY—Yes, I was just going to go to that in the context of another issue—the turnover. If I make a rough calculation, and it is only approximate, we are looking at about a 110 increase in total staff numbers. Do we know how that compares with, say, 10 years ago?

Dr Watt—The trouble is it is not an apples and apples comparison. The original Department of Finance was not a very big department; it would certainly have been smaller than the current Department of Finance and Administration.

Senator SHERRY—Yes, we have discussed this.

Dr Watt—Half the department is the administration side. MAPS, for example, is our biggest single group. That came out of the former DAS. That is 400-odd people.

Senator SHERRY—We have previously discussed staff turnover in the Department of Finance and Administration. Are you able to make any observations about the level of staff turnover, whether it has gone up or down, since the last occasion? I think we discussed this back in February in the context of the annual report.

Mr Hutson—As a department we are on record as saying that we believe our levels of staff turnover as identified in last year's annual report were considerably higher than we would like. Are they coming down this year? There are indications that they are down slightly during 2005-06. At this stage that is only an indication and we will wait and see what the next couple of months bring.

Senator SHERRY—In February and November I asked about matters pertaining to this. I want to come back to this issue of staff turnover. Is Mr Suur still the general manager of corporate services?

Dr Watt—Mr Suur has moved into the budget group.

Senator SHERRY—I saw him earlier and I wanted to clarify that. We had a discussion in November last year about the staff turnover and a discussion about identifying the reasons for staff turnover. Do you recall that?

Dr Watt—Yes.

Senator SHERRY—I raised the issue of Australian workplace agreements. It is my understanding that they are a condition of employment in the Department of Finance and Administration.

Mr Hutson—That is the way in which virtually all of the employees of the Department of Finance and Administration are engaged, yes.

Senator SHERRY—You say 'virtually'—all new employees?

Mr Hutson—All new employees are offered Australian workplace agreements. That is right.

Senator SHERRY—Why are they not offered a choice? There is no choice: it is AWAs—take it or leave it, isn't it?

Mr Hutson—Indeed, our certified agreement nominally expired, I think, in 1999 and has not been renewed since. It is very much out of date.

Senator SHERRY—It is AWA or nothing, isn't it?

Mr Hutson—Pretty much.

Senator SHERRY—Pretty much? It is. That is the reality.

Mr Hutson—That is the way we employ people in the Department of Finance and Administration, yes.

Senator SHERRY—There is no choice; it is take it or leave it. A new employee is not employed unless they sign an AWA. That is correct, isn't it?

Mr Hutson—Yes.

Senator SHERRY—When I questioned Mr Suur about the survey that was undertaken to identify reasons why people left the department, in the context of the turnover, I asked him whether, in that survey data that we discussed in some reasonable detail, AWAs were identified as being given as a reason. These are not his exact words but he said that it was not identified as a reason.

Mr Hutson—That is correct.

Senator SHERRY—I have information that that is not correct. I have had information directly from a former employee of the Department of Finance and Administration that he did give, as part of that survey work, the AWA circumstances as a reason for leaving the department.

Mr Hutson—That is news. All the information I have regarding all of the surveys we have undertaken has not identified the AWA as being a reason why anyone has left the Department of Finance and Administration.

Senator SHERRY—I am concerned because Mr Suur gave previous evidence, and you have confirmed that.

Dr Watt—We are happy to take that question on notice and check again the surveys that we have. It is possible, for example, that while the individual—without doubting the veracity of the information you have—did tell someone AWAs were an issue for them, they did not participate in the survey. Not everyone participates in the survey. It is voluntary. I think from memory about half the people leaving the department participate in the survey.

Mr Hutson—I would have to check that.

Dr Watt—There is a significant number of people who do not. The two are not impossible to square.

Senator SHERRY—I would ask you to check. Let me read—and we will explore this in more detail at the next estimates—the communication I have from a former Department of Finance and Administration official. I am not going to give you his name at this point in time.

Dr Watt—I would not expect you to.

Senator SHERRY—He said to me:

I was particularly disappointed by Mr Suur's statement that no-one has raised Australian workplace agreements, AWAs, as an issue as part of their reason for their departure from Finance. For your information, I transferred to another Australian Public Service agency—

and I will not give you the details of where from, but it is within the department of finance. He continues:

I have, as you will see in the attached document—which I gave to the company employed by Finance to conduct my exit interview, with my explicit permission that they could communicate not only its contents but also my name to the Finance executive—inter alia clearly articulated my concern at the manner in which Finance employs AWAs in negotiation with staff.

I ask you to go back and check the material that Mr Suur gave to me in evidence. This is a direct response to Mr Suur's evidence of last November.

Dr Watt—We will take that on notice and have a look at it. The important point to make is that the Department of Finance and Administration executive does not see individual responses. We look at responses that are aggregated by criteria, but we do not see the individual ones.

Senator SHERRY—I did ask Mr Suur a specific question and he was quite categorical in his response. It appears to me to be inaccurate on the face of the information I now have available.

Dr Watt—One point that would help is if you have a broad approximate idea of the departure date of the individual. That would help us track it down. I can assure you that it would not be used to try to ascertain who the individual was.

Senator SHERRY—I will seek to provide that. I will come back to you.

Dr Watt—If you have that it would help, but we will certainly have a look for it.

Senator SHERRY—I want to go to some issues relating to the contingency reserve. On page 6-30 of Budget Paper No. 1 there has been a sizeable jump in the contingency reserve from the 2005-06 budget. The reserve jumps from \$7.3 billion in 2008-09 to \$13.099 billion in 2009-10. That is a total of \$24.76 billion in the contingency reserve over the forward estimates. Dr Watt, I would like to hand to you and the other officers a copy of a comparison of contingency reserves in budgets and MYEFOs over the last five financial years. This is a table we have prepared, with the figures that have been published, of the contingency reserves since the 2001 budget. Could I have that incorporated or tabled in *Hansard*?

CHAIR—Can I have a look at it?

Senator SHERRY—Sure. Looking at the table we have prepared, can you explain to me what happened in 2001-02 between the budget and MYEFO, when \$7 billion was removed from the contingency reserve over the forward estimates, and in 2004-05 between the budget and MYEFO, when \$4 billion was removed from the contingency reserve over the forward estimates? I am seeking an explanation as to the reduction of the contingency reserve in those two specific periods.

Mr Bowen—Obviously without having tried to fully analyse these figures, between budget and MYEFO there is a draw-down in the provision we make for a conservative bias in the

forward estimates. On the face of it, that would certainly explain a significant reduction in MYEFO.

Senator SHERRY—If we look firstly at the 2001 financial year specifically and the amount of money that flowed out, wouldn't that be as a consequence of policy decisions announced after the budget and before MYEFO was published in that year?

Mr Bowen—We are guessing a little bit here without having the detail. There are times when decisions are not fully finalised but provisions are made against the likely possibility of expenditure occurring. That could happen at budget time. The money could be taken out of the contingency reserve at MYEFO and appropriated, because we do not appropriate for the contingency reserve—it is appropriated at additional estimates.

Senator SHERRY—When you say that you do not appropriate for the contingency reserve, it is not unusual, though, to earmark an amount of money in the budget announcement—and I will come to some details in terms of the current budget—against the contingency reserve?

Mr Bowen—That is true. Just be clear, though, that it does impact on the budget bottom line. That is why it is there—for the integrity of the bottom line. But it is not appropriated at that time.

Senator SHERRY—If we look at the 2001 period and the 2004 period, what I would like, if you could take this on notice, is for Finance to itemise the announcements that were made in the 2001 and 2004 election campaigns which had their funding included in the contingency reserve prior to the announcement in the election campaign. I would like a list and reconciliation by function and subfunction for each of those two years. Frankly, it does not strike me as just coincidence that significant draw-downs occurred in those two years that were related to the elections.

Mr Bowen—We can take that question on notice.

Senator SHERRY—What is concerning me is that, if you look at appendix B of statement 6, it says that the contingency reserve is 'not a general policy reserve'. But it appears to me that that is the developing trend in terms of the contingency reserve. It is becoming a policy reserve and it is not supposed to be.

Mr Bowen—I do not think as public servants that we comment on policy.

Senator SHERRY—I am not asking you to comment on policy; I am asking you—

Mr Bowen—No. But it is not treated as a policy reserve. There is a list of reasons there as to why items may be included in the contingency reserve. One of those, of course, is that, although decisions are not finally made, there is an indication that there is a likelihood that money will be required for a certain purpose. But it is not firm enough to go into the budget or to be published explicitly. That is one category—

Senator SHERRY—I am going to get to that category in a moment in terms of the last budget. Just so that you understand, it is our concern that it does appear that the contingency reserve is developing into a general policy reserve. That is on the data available that we have been able to aggregate over time. You may or may not agree. What we would like is an

itemised list of policy announcements made in the 2001 and 2004 election campaigns that consequently came out of the contingency reserve.

The other thing is that, if we look at these figures over time, there is a fluctuation up and down. In the budget of 2000-01 the total contingency reserve at 2004-05 on the sheet is almost \$12 billion. As I said, there is a fluctuation up and down. But there is a trend. If we look at the budget contingency reserve in this year's budget—for 2006-07—the contingency reserve has grown to almost \$25 billion.

Mr Bowen—Yes. To some extent that will reflect the growth in total budget outlays over that time.

Senator SHERRY—‘To some extent’ I can accept!

Mr Bowen—If, for no other reason, there is this provision for the conservative bias, which does grow as the total outlays grow.

Senator SHERRY—But, if you look at this table and the budget for 2000-01, you will see that the total is almost \$12 billion—\$11.972 billion—of the contingency reserve for the financial year. We then come down to the current budget for 2006-07—and I accept that there is some increase in programs—and we see it has increased very significantly. It has, effectively, more than doubled to almost \$25 billion.

Dr Watt—Let us leave out 2006-07 for the moment because there is a particular circumstance which we might need to come back to. Remember the biggest single thing in the contingency reserve each and every year is an allowance for conservative bias—an allowance which, no matter how good the program estimates are, tends to grow for reasons other than economic parameters over time, and that is just a fact of life. That allowance is as a proportion of the projected outlays each and every year. We are on the public record I think as saying that that allowance is in the first year of the forward estimates, one per cent of total expenses; in the second year, two per cent; and in the third year, three per cent. When you look at those figures, you would find a pretty good conjunction between the growth in conservative bias allowance and the growth in total expenses. Just looking at your rough chart, rough total, here, it is a pretty good conjunction up to 2005-06.

Senator SHERRY—It is 12 to 18 approximately.

Dr Watt—Over that period of time, 2000-01, we had expenses of \$161 billion; by 2005-06 we had expenses of \$222 billion. It is a pretty good conjunction. I have not got a perfect correlation, but I do not think I am that far off, frankly. You probably got a bit more growth than that but not much. Conservative bias really drives the contingency reserve. For 2006-07 we have been concerned for a while that the final year was not picking up. We were not allowing enough conservative bias for the final year. We have increased the component, and that explains at least in part the jump in 2006-07.

Senator SHERRY—But isn't it true that moneys for policy announcements made, whether they are made in an election campaign or outside an election campaign, can be drawn from the contingency reserve after the budget?

Dr Watt—What is correct is that at budget time—and this is not just about election campaigns; this is a general issue that affects the budget each and every year—the

government has to make judgments about measures that it is considering but has not taken a final decision on. At times, they are considered too remote to be put in the budget. At other times, where you are not able sometimes to announce them in the budget because they may be subject to sensitive negotiations, or you have not reached a final decision, it is prudent to put something in the contingency reserve. That happens each and every year. When a decision is funded from the contingency reserve, we always note that, from memory, in our measures document. You can see that quite clearly. That is something that happens each and every year.

Senator SHERRY—Yes.

Dr Watt—If you are saying to me, ‘Are individual measures put into the contingency reserve’—and this is a specific amount of money tagged for a specific purpose put into the contingency reserve because, for one reason or another, an announcement is not made at budget time—the answer is yes. If you are saying to me, ‘Is there a general allowance in the contingency reserve for broad policy?’—X dollars for things we might want to do in the future—the answer is no.

Senator SHERRY—But doesn’t the fact remain that the government of the day can choose, if it makes an announcement after the budget, to draw down if it wishes to have money from the contingency reserve?

Dr Watt—Only if there is a specific allowance against that measure put into the contingency reserve. Mr Bowen will confirm that, I am sure.

Mr Bowen—The government has the ability to appropriate money in the budget and delay the announcement. There is an explicit section in the budget measures, known as ‘decisions taken but not yet announced’. So it is made quite explicit. That is not in the contingency reserve; that is in the measures and money has been appropriated. That is different again. From my memory of the 2005-06 budget, the government addressed its election commitments after the election in 2004, and it took decisions in December 2004 for those election commitments that had expenditure in 2004-05. Those measures were appropriated and published at that time. But I think it also quite explicitly included a provision for election commitments that would need to be funded in the following budget. From memory, that was a one-liner—but an explicit statement.

Senator SHERRY—But was it without the detail beyond that one line?

Mr Bowen—It was without the detail because, although the election commitments had been announced, the final details of the decisions had not been made. So a bulk allowance was provided so that the bottom line was appropriately adjusted, then the detail was provided in the following budget.

Senator SHERRY—I want to come to this year’s budget. What are the specific announcements in this budget that are included in the contingency reserve? I am aware of one: the superannuation package of \$6.2 billion. I will get to that in a bit more detail soon. But are there any others that have been allocated to the contingency reserve?

Mr Bowen—The government has made public that certain allowances have been made in the contingency reserve. We would have to trawl through and get those, but I will give you an example. It would be done this way for commercial reasons—and now I am not quite sure I

am right, but Defence headquarters is an example. Do not take that as absolute gospel; I will have to check. It is for that type of reason, where there may be commercial negotiations to be undertaken, a decision has been made and an amount of money allocated, but it is not to be announced at this point.

Senator SHERRY—Could you give me a list of those, because I cannot find it listed as an aggregate.

Mr Bowen—No, you will not. We will have to have a trawl through it.

Senator SHERRY—It is a very useful trawl because it is a very useful set of information that is damn difficult to identify.

Mr Bowen—You might be surprised because there is not an awful lot.

Senator SHERRY—I want to get to that. I hope there is not. But there is certainly one big one. Before I get to the \$6.2 billion of superannuation in the contingency reserve, where are the changes to the seniors tax offset that were specifically announced? I cannot find the costings specifically mentioned in the budget measures. They are not detailed there. Are they in the contingency reserve?

Mr Bowen—No. Was that the seniors tax offset?

Senator SHERRY—The seniors tax offset is adjusted. It has been increased.

Mr Bowen—That really is a revenue item you would have to talk to Treasury about.

Senator SHERRY—Revenue or loss of revenue?

Senator Minchin—It is forgone revenue.

Senator SHERRY—But why aren't they in the budget measures in terms of the forgone revenue?

Mr Bowen—I cannot really comment on the revenue measures. That is a matter for Treasury.

Senator SHERRY—But Finance oversees the publication of the budget measures. It seems to me to be reasonable—

Dr Watt—No.

Mr Bowen—We are responsible for the expense and capital measures, but Treasury is responsible for the revenue.

Dr Watt—We are not involved at all in the preparation of revenue measures other than the non-tax revenue measures, of which there are few. We would not see those revenue measures in the course of preparing the budget documentation. We would become aware of what any revenue measure was at about the same time you would.

Senator SHERRY—The increase in the parameters of the senior's tax offset does not raise revenue.

Dr Watt—You are right, it loses revenue, but whether it raises or loses revenue we would not be aware of it.

Mr Bowen—It is a tax expense.

Senator SHERRY—Can you give me a list of those measures that were announced, that are in the contingency reserve and where I identified a figure for them.

Mr Bowen—Yes, we will.

Senator SHERRY—Coming to these superannuation changes that were announced—

Senator MURRAY—Are you moving on from the contingency reserve?

Senator SHERRY—No, it is part of the contingency reserve discussion. A significant number of measures were announced. Presumably the department of finance has had some involvement in the costing of those measures—oversighting the costing and verifying them.

Dr Watt—We have not.

Senator SHERRY—None at all?

Dr Watt—Not insofar as they affect revenue. We are not involved.

Senator Minchin—They are a cost to revenue, so they are handled entirely in Treasury.

Senator SHERRY—So you have had no input at all?

Senator Minchin—They are a revenue matter.

Senator SHERRY—I understand that, but there are a whole range of expenditure assumptions of great significance made in terms of the aggregate—the \$6.2 billion.

Senator Minchin—It is revenue forgone, which we are not involved in. It is entirely a Treasury matter which you can pursue with them.

Senator SHERRY—Do you have a view about whether it is appropriate to publish the details if there is an aggregate figure? There is no detailed publication of the cost of each of those measures.

Senator Minchin—It is not for us to be expressing views on that.

Senator SHERRY—None at all?

Senator Minchin—No. Again, you can pursue that with Treasury.

Senator SHERRY—I will be pursuing it with Treasury, but I am pursuing it with you.

Senator Minchin—It is not for us to independently offer a commentary on that.

Senator SHERRY—Hang on. We have a \$6.2 billion program announced in aggregate costs. We know the aggregate cost, don't we? It is in the published paper. That is true, isn't it?

Senator Minchin—That is a matter of fact.

Senator SHERRY—Yes, it is a matter of fact.

Senator Minchin—The budget published a figure of \$6.2 billion.

Senator SHERRY—As a matter of fact, a range of programs were announced as part of that. It is a matter of fact.

Senator Minchin—There are a number of policy proposals in relation to superannuation taxation which led to the establishment of that figure.

Senator SHERRY—It is not just superannuation taxation. There are other measures in there that are not taxation measures.

Senator Minchin—But the \$6.2 billion is almost all revenue forgone.

Senator SHERRY—Yes, the \$6.2 billion is revenue forgone. I accept that.

Mr Bowen—There may be a small component of expenditure in there, but by and large the greater proportion is certainly revenue forgone.

Senator SHERRY—I accept that, and that is what I am trying to get to. That is why I am a little surprised that you had no input in terms of an expenditure measure.

Mr Bowen—This is not a measure. I am not just being technical. As the minister said, it is a policy proposal. It has gone out for consultation. I do not want to get drawn too far into Treasury's business here, but we all know that. It is not a measure, because there has not been a final decision. It is not published as a measure and it does not appear in the measures document, but Treasury have put an amount into the contingency reserve against the high probability that a policy of this nature, with those sorts of budget impacts, will come into being.

Senator SHERRY—In order to put in an aggregate figure of \$6.2 billion there must be an approximate cost of the elements calculated.

Mr Bowen—Yes, I am sure there is.

Senator SHERRY—I am sure there is, too.

Mr Bowen—But, as Dr Watt has said, we were not privy to that and we are still not privy to that. Normally, we would not be privy to taxation revenue costings, because we are not responsible for them.

Senator SHERRY—So, even where there is an expenditure in this plan, you have not been involved in the development?

Mr Bowen—No. I am sure when it comes forward for decision by government, we will be involved in the costing of any expenditure components of that package. We will be.

Senator SHERRY—For example, there may be an impact on the public sector superannuation funds. You were not consulted on that?

Dr Watt—No, we were not.

Senator SHERRY—That is within your area. Let me give you an obvious one that comes to mind to me. It may impact on the retirement plans of people who are members of the Commonwealth public sector super. It seems to me that that is one of the stated intents of the policy announcement. So you were not consulted at all on any impact that would have on public sector superannuation funds?

Dr Watt—We were not—remembering, though, that while our two schemes are important in the sense of having a significant impact on their members and public servants, they are a very small part of the total number of superannuants in Australia.

Senator SHERRY—Sure, but there is still an impact—that is the point I am making—and you have told me you have not been consulted.

Dr Watt—We are making up for that.

Senator SHERRY—On this particular package?

Dr Watt—In relation to the CSS and PSS.

Senator SHERRY—It seems to me that if people choose to work beyond age 55 to, say, 60, there is a reasonably significant implication in terms of the fund.

Dr Watt—There are certainly some possible implications. They are not very hard to model, but there are certainly some possible ones.

Senator SHERRY—They must be modelled, because there is an aggregate cost, with obvious component costs that have not been published. Returning to the issue of election campaigns, on the last occasion I asked about access to departmental resources before an election campaign outside the parameters that are set at present. Has there been any reconsideration of giving the opposition of the day access to departmental resources for policy development and costing purposes? Has there been any consideration of that?

Senator Minchin—I think the government's position on that is clear and has not changed.

Senator SHERRY—Could you remind me of the current provision, Senator Minchin?

Senator Minchin—That those resources are not available to oppositions.

Senator SHERRY—So you are ruling it out? You do not have it under any consideration?

Senator Minchin—No, we do not.

Senator SHERRY—You have ruled it out. According to a response to a question taken on notice at the last hearing, the finance department worked on 10 major policies immediately before the 2004 election that were subsequently released in the election period when the PEFO was released. Do you recall that response to my question on notice? They were listed. It is a matter of fact.

Dr Watt—That is correct.

Senator SHERRY—For the *Hansard* record, could you read through them? There are only 10.

Mr Bowen—To preface this, our costings of a number of government election commitments noted that part or all of the cost of the commitments had been included in decisions taken prior to the calling of the election and published in the 2004 pre-election economic and fiscal outlook. In such cases, Finance had undertaken work on those items consistent with its normal role prior to the calling of the election. Those government election commitments where this applied were: 100 per cent Medicare: making GP services more affordable than ever before; increased funding for bushfire preparedness; Scoresby Freeway; Pakenham bypass; additional funding for regional arts; Promoting an Enterprise Culture; building our national transport future; the coalition's plan for higher standards and values in schools; securing Australia's interests; and local government: building on our relationship.

Senator SHERRY—So those 10 programs were costed by the department—not illegitimately; that is a matter of fact—before they were announced in the election campaign. That is a matter of fact.

Mr Bowen—We have indicated that we worked on them.

Senator SHERRY—Yes.

Mr Bowen—Whether we fully costed them or not, we worked on them.

Senator SHERRY—You worked on them, and I am sure you diligently, effectively, efficiently and accurately worked on them if the truth be known.

Dr Watt—There is an assumption there, and that is that whatever might have been announced in the election campaign was the same as what might have been worked on in advance. That is not necessarily correct.

Senator SHERRY—Have you checked?

Dr Watt—I do not have that information here.

Senator SHERRY—Could you take that on notice. Could you let me know on notice where there was a difference and what the difference was.

Dr Watt—We will see what we can do.

Senator SHERRY—Coming back to you, Senator Minchin, we have received on notice a list of 10 policies that you announced in the election that we know that the department of finance carried work out on prior to the calling of the election. Do you think it is reasonable that governments should have access to the costing of policies that were announced in an election prior to the calling of the election and the opposition does not? Do you think that is reasonable?

Senator Minchin—We have made the, I think, quite significant change that oppositions now have access to the resources of government for the costing of policies in the caretaker period.

Senator SHERRY—Prior to the election being called though?

Senator Minchin—However, I think allowing oppositions access to the costing expertise of government departments prior to a caretaker period is a very significant proposition. It has been a long-established practice in Westminster systems that departments serve the government of the day and that it is perfectly legitimate for duly elected governments to have their policy proposals costed by their own departments. That is how government works. That is the practice at the federal and state level in this country, and it has been for forever and a day. I can understand why an opposition—and we have been there—would love to have their policies costed by government departments prior to the caretaker period, but I do not think that is likely to be agreed to by any government of any persuasion at any level.

I think it also creates a significant dilemma for, in this case, the Finance and Treasury officials. Their obligation is to serve the democratically elected government of the day. If they are being asked to serve the opposition at the same time outside caretaker periods, it puts them in quite a difficult position. They are, under normal circumstances, obliged to ensure that their ministers are fully informed of all their activities, and that is our obligation as ministers: to ensure that we know what is going on in our departments. So what are you going to do? Are you going to have some sort of secret room where certain Finance and Treasury officials cost opposition policies and, if a minister chooses—

Senator SHERRY—We did—

Senator Minchin—I am saying outside the caretaker period.

Senator SHERRY—Well, say we have it in the caretaker period.

Senator Minchin—But the government of the day remains the government of the day—

Senator SHERRY—We trust the department of finance and their discretion during the caretaker period.

Senator Minchin—That is what I am saying. I think what we have done is a significant breakthrough, and an important one—that is, in the caretaker period, when the parliament is dissolved. Obviously you still have to have a government, and the government remains the government until the writs are returned. We are the champions of this, that during that caretaker period, when there is an electoral contest, it is appropriate for those resources to be made available. But I think outside the caretaker period, given the obligations of public servants to serve the government of the day, to be then requiring them to perform functions for the opposition as though they were some independent think tank is quite unreal and would put them in a completely invidious position. I simply do not think it is workable, practically, but nor is it likely that any government is going to go down that path.

Senator SHERRY—There are some international examples that I am not going to go to today—we will have a discussion about this at another time—but the fact is that you announced 10 policies during the election campaign and the work on the costings had been carried out by the department of finance prior to the election being called. That is a matter of fact. The opposition of the day is not in that position.

Senator Minchin—No, and that is a function of having lost an election. You are in opposition and you do not have access to those resources. Obviously that is just a fact of life. We have had that. The state oppositions have that. That is a fact of political life.

Senator SHERRY—That is a fact of political life, and I accept that reality; I understand it all too well. But you have this new charter process. You are not giving any consideration as part of the Charter of Budget Honesty to ensuring that the opposition has a level playing field of access prior to the election.

Senator Minchin—As I say, I think it is a very significant decision on our part to provide those resources during the caretaker period. That is certainly something that the Labor government never gave us. But for you now to say: ‘Well, thanks very much. Now we want to have access to it through the whole period’—

Senator SHERRY—You should do everything exactly the same as the Labor government did when you were in opposition—is that your attitude?

Senator Minchin—No, of course not. But I am making the point that at no stage did any Labor government give us access during the caretaker period to costings expertise at Treasury and Finance. We have done that. I think it was in the right spirit and it is the proper thing to do. But, having done that, now we hear: ‘That is not good enough. Now you have to supply it 12 months before’—12 months before what, I am not sure—then, if you agree to that, it will be three years before and you will be treating Finance and Treasury—

Senator SHERRY—We will start with 12 months. We are very happy to start with 12 months!

Senator Minchin—We know where it would lead. But I make the point—apart from the obvious political points, which I do not need to make—that I think it is totally contrary to the whole notion of the Public Service and its obligation to serve the government of the day to have it treated like some sort of independent, almost non-government centre of expertise, available to all and sundry. If you give it to the opposition, why not any interest group? Why not anybody? If the ACF wants to cost—

Senator SHERRY—I think there is a big difference, Senator Minchin—

Senator Minchin—That is where it leads.

Senator SHERRY—and you know that.

Senator Minchin—I think that is ridiculous. There are professional centres of expertise that have been established for this purpose. My party has had to use those centres of expertise to have costings done, as has yours. That is proper.

Senator SHERRY—Except you boast that you have changed the process and you have a Charter of Budget Honesty. You provided access during the election period only. So you have changed the process. You have not continued what the former government did.

Senator Minchin—No, we have improved it for oppositions. We made it much better for oppositions.

Senator SHERRY—And you are not prepared to improve it beyond that 30-day period, or whatever the election period is.

Senator Minchin—As I say, I think that privately you must be surprised that we have gone as far as we have. I think it is a remarkable gesture on our part. It is unprecedented in this country for the government of the day to make available to the opposition the expertise of Treasury and Finance to cost your policies. But, typically, that is not good enough and now you want more. Frankly, I think we have done an enormous amount to enable oppositions to put properly costed policies before the Australian people, and you ought to be grateful for that.

Senator FIFIELD—And the oppositions have not availed themselves fully of that, anyway. From recollection, the policies all tend to come in over the last couple of days or not at all.

Senator Minchin—Quite right, Senator Fifield.

Senator SHERRY—What about access to information that is not published that a department holds? I am going to come to a specific example that you would be all too familiar with, Senator Minchin.

Senator Minchin—Again, I think that derogates from the principle that I have established, that prior to the caretaker period the public servants are there to serve the government of the day.

Senator SHERRY—Let me come to a specific example. I have asked on numerous occasions for the Treasury's estimates of the contributions tax collected, which it does have

but does not publish. How does an opposition accurately calculate an estimate for variations in contributions tax if the department does not publish the figure that it has?

Senator Minchin—Presumably one relies on outside expertise to obtain as accurate a figure as is possible.

Senator SHERRY—And what if there is a difference?

Senator Minchin—I really do not want to get involved in a hypothetical. You just asked me a ‘what if?’

Senator SHERRY—No, I am raising a real issue.

Senator Minchin—The fact is that that separate figure is not published. There is an enormous amount of detail published of the financial accounts of the government. There is now much more information published than has ever previously been the case. Oppositions have a substantial amount of published material. To the extent that there is information not published, that is a function of being in opposition, a fact of political life, but there are centres of outside expertise able to assist.

Senator SHERRY—Can I come back to the issue of the contingency reserve. In the budget papers for the Department of Agriculture, Fisheries and Forestry portfolio, there is a listing for ‘other decisions yet to be announced’ in 2006-07, with a \$10 million allocation but no details of decisions—just the allocation.

Dr Watt—When you say ‘in the budget papers’ do you mean their portfolio budget statement?

Senator SHERRY—Yes. Is the department of finance aware of this? This is apparently a ‘new, innovative approach’ to measures announcements.

Mr Bowen—No, it is not new.

Senator SHERRY—It was not in there last year.

Mr Bowen—It was, as a matter of fact. I do not know about in Agriculture.

Senator SHERRY—I am talking about Agriculture.

Mr Bowen—I cannot comment specifically on Agriculture, but what I can—

Senator SHERRY—But that is what I am asking about.

Mr Bowen—I am trying to help get to the bottom of it.

Dr Watt—I think what Mr Bowen is saying is that what is new to Agriculture might not be new whole-of-government wide.

Mr Bowen—Well, it isn’t. For example, if you go to page 62 of Budget Paper No. 2 there is a line that says ‘Decisions taken but not yet announced’. This is something I mentioned a little earlier in the discussion, do you remember?

Senator SHERRY—Yes. Did you say Budget Paper No. 2?

Mr Bowen—Yes. Budget Paper No. 2, table 3 on page 62.

Senator SHERRY—‘Expense measures since the 2005-06 MYEFO’?

Mr Bowen—Yes. Come down to the third-last line, ‘Decisions taken but not yet announced’.

Senator SHERRY—Is this in relation to the Department of Veterans’ Affairs?

Mr Bowen—No, it is not. I can see how you could read it that way, but it is not. It is actually a global figure.

Senator SHERRY—Okay. You might indicate that next time or get Treasury to indicate that.

Dr Watt—We can get that a little clearer.

Mr Bowen—You are not the first person to be caught on that.

Senator SHERRY—I have not been caught yet; I am trying to find out what the Department of Agriculture, Fisheries and Forestry are up to. So that \$10 million is in that aggregate figure?

Mr Bowen—More than likely. I have to check, because that is expense measures since the 2005-06 MYEFO. I doubt it would be anywhere else.

Dr Watt—We can take that on notice and confirm it this afternoon.

Mr Bowen—We are almost certain it is in that section, but we will confirm it.

Senator SHERRY—We partly discussed this earlier but, when you have a specific measure that has been costed and put into this aggregate figure, why isn’t it announced in the budget if it is costed?

Mr Bowen—That is really a matter for the government. It is usually just an issue about the most appropriate time to announce it. I cannot comment beyond that, frankly.

Senator SHERRY—So we can delay, beyond budget, budget policy announcements—

Mr Bowen—You can.

Dr Watt—The point being that, without knowing what the AFFA issues are, you can imagine that they could easily be subject to Commonwealth-state negotiations, subject to a Commonwealth-state agreement or a matter of consultation between Commonwealth and state ministers, just to pick a few—all of which are why you would not necessarily want to announce the exact amount. However, you would nevertheless want to have something in to ensure the budget balance was as accurate as possible.

Senator SHERRY—Sure, but wouldn’t it be appropriate to seek an explanation from the appropriate agency?

Mr Bowen—If the government has taken a decision not to announce, the agency cannot pre-empt the government on that score.

Senator SHERRY—No, but you can seek an explanation as to why. It may well be what Dr Watt has just outlined.

Mr Bowen—We are getting into hypotheticals.

Senator SHERRY—No, we are dealing with a mysterious \$10 million allocation in the Department of Agriculture, Fisheries and Forestry for which there is no explanation when asked. There is no explanation at all when one is sought.

Dr Watt—You do find yourself on the horns of a dilemma on these issues. You set out to be as transparent and to have as accurate a budget balance as possible. Equally, there are certain things that the government has, for various reasons—good reasons—decided not to announce in the budget. There is a dilemma. As I said, I think that in this case we would say that it is important to keep the budget estimate accurate and therefore important to have something in the budget bottom line. I take it that you are not saying this, but if you would prefer that they not be mentioned at all I am sure we can look at that too. I think the attention is on accuracy and transparency, but there are certain things that cannot be announced on budget night.

Senator SHERRY—Chair, have we had confirmation about Mr Murray's attendance as yet?

CHAIR—I think 'confirmation' would be too strong a word, but I have been informed that he is intending to be here after lunch.

Senator SHERRY—In the appropriations for 2005-06 that were presented earlier this week, bill No. 5 seeks additional appropriations of \$1.34 billion on top of the \$2.6 billion provided at additional estimates, and bill No. 6 seeks \$2.3 billion on top of the \$1.4 billion provided at additional estimates. The reporting of additional amounts sought for the current financial year seems to be extremely poor—in fact, it is nonexistent. Given there are no additional appropriation PBSs, can departmental officers explain where I can find the detailed measures for 2005-06 additional amounts?

Mr Bowen—You will not find them in one consolidated place, but you will find them in Budget Paper No. 2.

Senator SHERRY—Scattered.

Mr Bowen—Included with each portfolio—that is the way this document is done—you will find measures that have expenditure in 2005-06. Often decisions taken in a budget year include some money in the current year as well as money into future years. So they are included there but they are not specifically highlighted.

Senator SHERRY—Is there scope for additional reporting in Budget Paper No. 2 for 2006-07?

Dr Watt—Do mean for the 2005-06 financial year?

Senator SHERRY—Yes.

Ms Campbell—Each portfolio issues a supplementary additional estimates document which details the moneys sought in bills 5 and 6.

Senator SHERRY—We have additional appropriation bills, and in the bills, in terms of the reporting and the detail, there is no explanation. We have to go to the budget papers to get it, in other words?

Ms Campbell—Yes. Each portfolio will have issued their own supplementary additional estimates document.

Senator SHERRY—But in terms of the appropriation bill, we have to look at the appropriation bill and go back to the budget paper.

Ms Campbell—Or to the yellow document produced by each portfolio.

Senator SHERRY—Yes. What about a supplementary measures statement produced for 2005-06—wouldn't that be appropriate?

Mr Bowen—That is really a matter for government.

Senator SHERRY—The bill that has gone before parliament is \$3.74 billion. Senator Minchin, presumably you will handle this in the Senate. The second reading speech of Mr Nairn, who handled the matter in the House of Representatives, says \$3.74 billion, with no explanation. We would like to know what we are appropriating money for when we approve an appropriation in the parliament.

Senator Minchin—Yes. I imagine that in speaking to the legislation there would be some revelation of detail if it is not already there. That would be normal. But in terms of a separate statement, I am happy to reflect on that.

Senator SHERRY—If you could. To front up and have \$3.74 billion, bang, that is it, does not seem to be satisfactory.

Senator Minchin—I am sure that in speaking to the bill some more detail would be proffered. Whether there is a more formal way of doing that, I am happy to look at it.

Senator SHERRY—I am sure that by the time it gets to the Senate, just a list of the substantial appropriations that make up the \$3.74 billion would be useful.

Senator Minchin—Yes, and quite properly.

Senator SHERRY—In dealing with the issue of measures in the budget papers which use cash in 2005-06 and the expenses fall over to the forward estimates, I would like to focus on one measure. The Murray-Darling Basin Commission is to receive half a billion dollars in 2005-06 and the appropriation is sought in bill No. 5. The amounts come out over the forward estimates and are expensed across various years. That is not the only example, but I want to use this to develop some more detail. The \$500 million for the Murray-Darling Basin Commission is on page 88 of Budget Paper No. 2. I want to be clear that I have this right. The \$500 million will be appropriated in 2005-06—is that correct?

Mr Bowen—Yes, that is correct.

Senator SHERRY—So the cash effect will be minus that \$500 million on the cash balance in that year?

Mr Bowen—Yes.

Senator SHERRY—And there is no fiscal balance effect until some time in the future across the forward estimates?

Mr Bowen—The fiscal balance effect for the forward estimates is shown on page 88. It has a fiscal balance impact over the budget and the three forward years and a further \$50 million in 2009-10 and 2010-11.

Senator SHERRY—Has that been standard treatment, consistent with accounting standards?

Mr Bowen—I will refer to the accounting expert on my right for that, but I think the answer is yes.

Ms Hazell—Yes, that is the standard accounting treatment.

Senator SHERRY—Is the department able to provide other examples of where this treatment has occurred in the past?

Mr Bowen—We can give you an example of where it has happened in this budget, which is not strictly in the past, I suppose.

Senator SHERRY—Other than for the Murray-Darling Basin Commission?

Mr Bowen—There is some roads expenditure. I would have to find the measure. Similarly, there is a cash impact in 2005-06 which is then expensed in our accounts over a number of years. That will be under the Transport portfolio.

Senator MURRAY—Is the Natural Heritage Trust done on that basis?

Mr Bowen—You can always get some variations. It is probably not quite as stark. We have money going outside of the general government sector and, when the cash goes outside, of course, that hits the underlying cash.

Senator SHERRY—That is true of the Murray-Darling Basin Commission because it is obviously a separate statutory organisation. Go back to the other example that you raised: the roads.

Mr Bowen—The money goes to various states, which are obviously not part of the Commonwealth general government sector.

Senator SHERRY—In terms of the Murray-Darling Basin Commission, half a billion dollars was announced by the Commonwealth. Was that announced as part of the budget or prior to it?

Mr Bowen—I cannot be sure whether it was before, but it was certainly part of the budget.

Senator SHERRY—But it will be expensed over those years by a government authority—in this case it is state-federal. They will be expensing the items and you have an estimate of the expensing of those items. Presumably you have some feedback from the commission as to the accuracy of the expensing?

Mr Bowen—Yes, we have. There is certainly a basis for that phasing of the expensing.

Senator SHERRY—But it is open to the commission because they are expensing the item to vary that as they see fit from year to year?

Mr Bowen—That is our best estimate based on their advice.

Senator SHERRY—I understand that. But it is open to the commission—I mean, they are a separate legal organisation; in this case, it is state-federal—to vary that if they so wish.

Mr Bowen—It is open to the commission, but I guess we would presume that they would do that only if there were good management reasons to do it. If they did have to vary the spending of that money, they would have to advise us and we would have to adjust our expense estimates accordingly, but we would not have to adjust our cash estimate.

Senator SHERRY—So they could do that, but you would want to be told about the variation and the reasons. At the end of the day, they have the legal right to do that?

Mr Bowen—Yes.

Senator SHERRY—Regarding the actual transfer of the half a billion dollars, presumably the Murray-Darling Basin Commission runs its own account?

Mr Bowen—I am sure they do.

Senator SHERRY—If the cash is actually transferred to them, into their bank—

Mr Bowen—When it is appropriated, the cash will be transferred directly to their account.

Senator SHERRY—What happens to the interest earned on the account?

Mr Bowen—It is a cash payment to them for them to use. I would presume they could earn some interest on that money.

Senator SHERRY—They are spending only \$65 million in 2006-07. I am sure they would be earning some interest, wouldn't say? They will have \$400 million unspent.

Mr Bowen—If they are managing it well, you would expect that.

Senator MURRAY—I would expect between \$25 million and \$40 million a year, depending on their return.

Senator Minchin—The cash would run down.

Senator SHERRY—Yes, they would run it down, but there is \$500 million and they would run it down over four years.

Senator Minchin—There is an additional benefit for the environment as a result of their capacity to earn interest on that money.

Senator SHERRY—Yes. It is a quite beneficial program. What about the roads program? That is not a benefit to the environment directly, as this measure is.

Senator Minchin—We were talking about the Murray-Darling Basin Commission.

Senator SHERRY—Do we know that the interest is being spent on the environment?

Senator Minchin—They are required by law to devote their resources to the purposes of the commission, which is the management of the Murray-Darling Basin. So to the extent that they have the benefit of interest earned from cash at hand, it has to go to the purposes of the commission, so I colloquially described that as to the benefit of the environment.

Senator SHERRY—I am sure it does, and I am not critical of the program, but half a billion dollars is a fair whack of money, and the considerable majority, which is not spent in 2006-07, is drawn down gradually. Does the department have any input into the placement of

that money, the interest earned and how the return is maximised? Do you have any input into that at all?

Mr Bowen—No. As far as I am aware, we do not. That is a matter for the Murray-Darling Basin Commission to manage.

Senator SHERRY—Are there any other examples? You have mentioned the roads program. Are there any other examples in this set of budget papers?

Mr Bowen—I cannot bring to mind any other and I doubt whether there are any other significant items.

Senator SHERRY—There would certainly be cash transfers—fairly small amounts, I accept that—to other government statutory authorities, cash amounts that are not necessarily spent to varying degrees in 2006-07? There must be.

Senator Minchin—I was just thinking of the \$15 million which we provided for the development of an international swimming centre in Adelaide. I think that is being transferred to the state government. It probably will not all be spent in 2006-07, but that is an example of a smaller amount.

Senator SHERRY—There is a whole range of government statutory and primary industry organisations. Mr Bowen, perhaps you could take this notice: what other programs exist where there is a cash transfer outside government departments, interstate or independent and maybe Commonwealth statutory organisations, and it is not spent in the year of the transfer?

Mr Bowen—Yes, I am happy to take that on notice. I think that is the best way to deal with it.

Senator SHERRY—If you could examine for the 2006-07 year, I would be interested to know whether this is an increasing trend or whether it is decreasing—so some examination of the last five years.

Mr Bowen—We will do our best. There would be quite a lot of work involved.

Senator SHERRY—Trend identification. I did not ask for the same level of detail for every previous financial year as for 2006-07.

Mr Bowen—Okay.

Senator MURRAY—It contrasts with a more traditional draw-down facility, where the commitment is made but the funds remain in the hands of government. But I would expect—just by doing some mental maths and looking at the trend—that a good return might see as much as \$70 million to \$80 million over five years accrue in interest to the commission. That might be a very good thing from the perspective of the minister's environmental remarks. I am not automatically negative about it, but, nevertheless, that is potentially \$80 million forgone by the Commonwealth and that should be acknowledged or recognised somewhere, because a draw-down facility would not have incurred that amount of money.

Senator Minchin—At the end of the day, we are talking about the final budget outcome in any one year. To the extent that the surplus is smaller than it otherwise might have been, interest earned is forgone. If the surplus is \$14 billion instead of \$15 billion then obviously a billion dollars at five per cent is forgone.

Senator MURRAY—I understand that. I understand that the government has to decide on priorities—for instance, with \$80 million over five years, the opportunity cost could be put into mental health or something else or given to the Water Commission. Maybe it is better with the Water Commission, by all means, but I just think we should be aware of the opportunity cost.

Senator CHRIS EVANS—I just want to assist the minister's focus on defence projects by asking about his department's role in monitoring those. I have not followed this up with Finance since the changes were announced, but I want to get a sense of how that is operating. I want to ask about the advisory board to provide advice to the DMO on strategic issues and a report to the ministers of defence and finance. I also want to ask about the development of your own cost centre and its role in monitoring defence projects. I am happy to start with whichever one you would like to start with. Maybe we will start with the cost centre.

Dr Watt—The advisory board is much simpler.

Senator CHRIS EVANS—You have abolished it?

Dr Watt—No, it is effective.

Senator Minchin—Dr Watt, would you like to just give a brief overview to summarise what the Kinnaird report meant for Finance and how that is working?

Dr Watt—There were two things in the Kinnaird report that had particular implications for Finance. One was the ability to provide greater assurance about cost and risk as part of the cabinet decision-making process and particularly as part of the first and second pass process that Kinnaird recommended and the government adopted. This involved the Department of Finance and Administration being funded a small amount of funding to establish a defence capability assessment branch, which works with particularly the DMO and, even more importantly, Lieutenant General Hurley's people, who are the ones working on cost and risk assessments from the Defence side. The program cost estimates and the associated risks come before cabinet, in relation to consideration of Defence acquisitions.

Senator CHRIS EVANS—Is that a joint submission?

Dr Watt—No, they are submissions by the Minister for Defence, but the Department of Finance and Administration provides input into the bodies of those submissions. I think that was specifically recommended by Kinnaird, and we do that.

Senator CHRIS EVANS—So you do not put in a separate submission?

Dr Watt—No, we provide some comment. The length of the comment depends particularly on the issue, on how we see the cost and risk schedule—the cost estimates and the risks around the acquisition, in terms of both the schedule and the costs themselves. They are not coordination comments; they are not to be confused with coordination comments. We do not comment on the policy as part of this process; we comment solely on the costs and risk associated around the acquisition.

Senator CHRIS EVANS—I gather, though, that this has been a developing and growing area. I notice that in your annual report you talk about expanded capacity by the recruitment of analysts, development of skills—

Dr Watt—It is developing and growing in the sense that we have been at it now for about two and a bit years—since March 2004. I think you have last year's annual report.

Senator CHRIS EVANS—Yes.

Dr Watt—It is fair to describe the 2004-05 financial year as a growing experience. We were putting the thing in place then. These days, I describe the last 12 months as more a year of consolidation and learning rather than growing and learning.

Senator CHRIS EVANS—What staff are there in the unit now?

Dr Watt—I defer to Mr Roach or Mr Saunders.

Mr Roach—We have a budget for 14½ staff; we have 12 at present.

Senator CHRIS EVANS—The establishment is 14.5?

Mr Roach—Yes.

Dr Watt—As you know, these days establishments mean a lot less than they used to.

Senator CHRIS EVANS—It is interesting to hear Finance say that! Obviously, you report direct to the minister for finance as well.

Dr Watt—That is correct.

Senator CHRIS EVANS—What sort of reporting does that take? Is it just preparation for him to appear in cabinet when these decisions—

Dr Watt—The normal reporting that any other part of the department does in relation to matters that come before cabinet involves briefing and providing oral advice to the minister and members of his staff as required and as asked for and, obviously, from time to time, reporting on individual issues other than those in cabinet.

Senator CHRIS EVANS—That is what I was wondering about: the ongoing monitoring role. As I understand it, you are saying that cabinet considers both first-pass and second-pass reports on acquisitions.

Dr Watt—Yes. And there may well be other reports on the same capability over a period of time. The reports to cabinet are not necessarily limited to first and second pass.

Senator CHRIS EVANS—No. That is obviously the key issue.

Dr Watt—It is the biggest set piece—let's put it that way.

Senator CHRIS EVANS—Clearly, a lot of your risk is in existing projects—I refuse to use the word 'legacy'; I think the government is running out of steam on that defence—or ones that have been passed for acquisition. I am trying to understand what management role or reporting role you have in relation to those.

Senator Minchin—It is important to make it clear that Finance is not formally involved in the management of projects in Defence. We have a role in relation to the NSC decision-making process at first and second pass to ensure that NSC has available to it, in the sense of quality assurance, information as to cost and risk when it comes to make those crucial acquisition decisions. But beyond that, of course, it is Defence and DMO in particular that are responsible for managing the project. Obviously, as and when Defence comes back to NSC

with progress reports or seeking additional funding or any of that sort of thing, Finance, as it would with any department making such a claim, provides coordination comments on that.

Senator CHRIS EVANS—So they are coordination comments, not input into Defence's submission?

Senator Minchin—That is right, isn't it?

Dr Watt—There is a distinction.

Senator Minchin—Yes, once you get past second pass.

Dr Watt—Apart from first and second pass, where we have a particular role, our role in, let's say, a standard progress report on a project at any stage of its life cycle would be limited to the standard role of the central agency. We discuss issues with Defence and we provide a coordination comment. But that is a coordination comment; that is not specific first- and second-pass contribution to the cabinet submission.

Senator CHRIS EVANS—You told us yesterday, Minister, that you are not actually on the NSC.

Senator Minchin—That is right. The Treasurer is a full member, but the finance minister has traditionally only ever been co-opted when expenditures are being considered. I probably go to most meetings but I am a co-opted member, not a full member.

Senator CHRIS EVANS—Are you telling me that when your coordinating comments are considered you are actually in the room?

Senator Minchin—Yes.

Dr Watt—Usually—not always. There are occasionally times when we might provide a coordination comment when there are no direct financial implications and the minister is not automatically co-opted.

Senator CHRIS EVANS—You had better follow that up, Minister. They obviously sometimes choose for you not to be there.

Senator Minchin—I can always rely on the Treasurer, at least.

Senator CHRIS EVANS—That looked like news to you.

Senator Minchin—I was just trying to think of the occasions when I would not be asked.

Senator CHRIS EVANS—When they forget to tell you the meeting is on.

Senator Minchin—I always have to watch that.

Senator CHRIS EVANS—It is not a large branch—

Dr Watt—It is a small branch.

Senator CHRIS EVANS—but an establishment of 14 is a decent one—

Senator Minchin—It is hard work, though.

Senator CHRIS EVANS—for a small underresourced department like yours.

Dr Watt—There are a lot of projects.

Senator CHRIS EVANS—It is a huge area of government capital expenditure, isn't it?

Senator Minchin—The biggest, yes.

Senator CHRIS EVANS—I do not pretend that it is not a huge task. I understand how and why you engage in the first and second pass of the acquisition process. I want to know how you engage in monitoring the risk of the projects when they are being implemented, or through their life.

Mr Roach—Sure. In large part, we do not look at the projects after they have been approved. There is a standing instruction that if projects exceed the bounds that have been agreed by the government in terms of cost or schedule or scope then they are required to come back to ministers—normally to cabinet. When that arises, we would then become involved. But we do not get involved in the day-to-day management of projects, even those that are encountering some difficulty. If Defence believe that they can manage those, we do not get heavily involved.

Senator CHRIS EVANS—It would seem to me that there is hardly a project you are not involved in, then. Name the Defence major acquisition that has no problems with cost, schedule or scope.

Mr Roach—You have to draw a distinction between Defence's ability to manage the projects and conclude them within those bounds and actually running into difficulties where risks emerge and Defence have to deal with them. If they believe they cannot deal with them, then they come back in to government.

Senator CHRIS EVANS—What triggers the red light for you?

Mr Roach—What triggers the red light for us is when Defence or the minister writes to either the Prime Minister or the Minister for Finance and Administration and indicates that the project cannot be delivered either with the capability intended or to the approved price or schedule.

Dr Watt—It is usually not so much triggered by a letter but the prospect of a letter. We would normally be involved before correspondence—usually.

Mr Roach—We would be aware, but the formal action takes place when that is advised formally.

Senator CHRIS EVANS—I will use as an example the Tiger helicopter project, which we discussed with the Audit Office last night. They told us that Defence had identified a through-life risk of an increased cost of \$625 million. That is not small bikkies in anyone's book. Are you involved in monitoring that? Did that set off the red light? What role do you then play?

Mr Roach—Defence has not advised us that they cannot deliver the Tiger within the approved bounds, and so we are not formally involved in bringing that issue back to ministers. We have briefed them, based on Defence's advice to us, in terms of the problems that the project has encountered.

Senator CHRIS EVANS—So you are not formally involved now in monitoring that project?

Mr Roach—That is correct.

Senator CHRIS EVANS—That seems to be counter to what you just told me. We know that Defence have made an assessment and advised the Audit Office that they have not finalised the total through-life cost increase, but they have estimated it at \$625 million. That means that the cost of the project and through-life support will increase somewhere in the order of \$600 million.

Senator Minchin—But that might be over the 20-year or 30-year life of the acquisition. To the extent that Defence believe that they can manage that within the DCP or within their budget then that is a matter for Defence. They might report that to NSC, but, in a sense, our role is only triggered if Defence were to say, hypothetically, ‘We can’t manage this additional cost within our budgeted programs and we are coming to NSC to seek additional resources.’ Then, of course, that would trigger our involvement.

Senator CHRIS EVANS—But how do you do that? They have a budget for the through-life cost of the Tiger. They now think it is going to be \$600 million more. I do not care over how many years. That is \$600 million more of taxpayers’ money that they have to find. Are you saying to me that, because they have a bucket that is really deep, they can find the money somewhere else and you are not worried about it?

Senator Minchin—I am speaking a bit hypothetically here. Maybe you have further information. I am not sure that Defence have formalised that sum.

Senator CHRIS EVANS—No, they have not.

Senator Minchin—It was reported in the ANAO document that Defence are presumedly working that up. But they have built into the contract some risk factor. They built into the DCP itself, of course, an allowance for risk. They are required to manage the total DCP and manage within it. They are given an allowance for risk and, obviously, the potential for cost increases. They have that responsibility. They only come to the NSC if they believe they cannot manage that particular escalation in cost within their resourcing and they need additional resourcing. But they may have another project which comes in well under budget. So they are given some flexibility.

Senator CHRIS EVANS—Name one.

Senator Minchin—I am not sure that I could name one off the top of my head.

Senator CHRIS EVANS—No, exactly.

Senator Minchin—I know I am speaking hypothetically, but—

Senator CHRIS EVANS—You are—I appreciate that, Minister. But that really opens up the question: what is the point of having Finance monitoring it if a \$600 million overrun of cost does not trigger any interest in Finance?

Mr Roach—Can I clarify something. The project approval which essentially sets the bounds for the project relates to the acquisition. It would normally include the first three years of transition into service. But that approval does not cover the ongoing costs and delivery and maintenance et cetera of that particular equipment. That is dealt with separately. So, in terms of managing the project approval, we would look just to the acquisition part of the project if you consider that a project is actually extending beyond acquisition and into service through its life.

Senator CHRIS EVANS—I put this to you: one of the major criticisms of Defence is that they buy a platform and underestimate the cost of through-life support. The government buys the platform and then, after further analysis, they announce, ‘Golly gosh, it’s going to cost a lot more to support the platform through its life than we first estimated.’ That has happened to government after government. This is not a political point. This has been well known about Defence. Whether it is done deliberately or it just happens to be a continuing misfortune is obviously open for debate. But I cannot understand why you would say, ‘We approve it for the first three years and then it is not an issue.’ This is a real risk issue.

Dr Watt—It is not quite as simple as that. As part of the Kinnaird processes, the department of finance does comment on what you would be familiar with in the term ‘NPOC’.

Senator CHRIS EVANS—What is the term?

Dr Watt—Net personnel operating costs.

Mr Roach—It is Defence’s estimate of the change, usually an increase, in the operating costs for a new generation of equipment compared to the old.

Dr Watt—This is a comment at a point in time at first or second pass. Once the second pass is completed then we do take less of an interest. We have to take less of an interest. We cannot do Defence’s job for them—not with 14, 400 or 4,000 people.

Senator Minchin—And we are not auditors.

Dr Watt—While we quite rightly should provide advice to government on the risks—and we do some monitoring—we cannot run the projects for them and we do not intend to run the projects for them. We clearly take an interest from an overall budget point of view. Defence has an overall fund—and the cost of individual projects within that fund moves up and down, believe me; and I acknowledge that the downs are less than the ups, but they do move up and down over time—and our main focus is on the total size. Apart from the first and second pass, our main focus is on the total size of the envelope, as a whole, not on individual projects. It has to be. Where there are 12,000 or 14½ thousand people, you do not have a choice. So, in a sense, we do take less of an interest.

In relation to Tiger, I understand that the \$600 million figure—and I am not familiar with what goes into that figure—is not agreed between Defence and Audit. Defence have a lower number in mind. This is a hypothetical: it might be quite possible that this has not affected the size of the envelope in any particular fashion, because Defence have, firstly, a contingency—all these things have some contingency built in; I do not know about what is in Tiger, but there is usually some contingency—and, secondly, the ability to juggle other projects.

Senator MURRAY—I am a bit disturbed by your response from a process and skills perspective. When the Treasury were pulled up, I suspect by the government—although that did not become a public matter—but certainly by public commentary and the estimates process, as to the inadequacy of their forecasting, they went back and reviewed their forecasting and announced to everyone how they had evaluated it, adjusted it and reformulated their approach. In other words, they took a professional appraisal proposal point

of view and tried to correct what they regard was an estimation process which was proven to be inadequate.

It seems to me that what we are discussing here is a cost accounting problem, where estimations are proving inadequate, and that is about skills and abilities, not about malfeasance and deceit—it is about people not getting it right. I would have thought that Finance's eternal interest has been in maximising the ability of various agencies to produce their financial estimates, their accounting processes and their skills in this area to the maximum, and that is shown by your Finance directives, training programs and interventions. It is a process issue. I am concerned when what is seen to be a systemic problem—which might be a process problem, not anything else—is treated with a somewhat hands-off approach.

Dr Watt—No. There is an exact analogy between Treasury's revenue estimates and our expense estimates, but it is not quite the one that you point out. Treasury looked at revenue estimates as a whole, which were coming up significantly short, so they had a look at the reasons for it. They discovered that the elasticity of the tax system was greater than they had been assuming and they have changed their estimating procedures accordingly. We do that in relation to our budget estimates for the same reason. We have been agonising over our seeming ability to miss underspends in the budget, for example, for the last two or three years, when there have been some quite sharp underspends in the last 12 months of the budget cycle. We went back and looked at programs and so forth to try and improve the estimating character of those programs. We think we have done better this year and that is reflected in the estimates. I would be very surprised if what has happened with Apache—

Senator Minchin—Tiger.

Dr Watt—Sorry—there are too many macho names in Defence for me. I would be very surprised if what—

Senator MURRAY—Same thing, different animal.

Senator CHRIS EVANS—Yes, but they are all failed projects, though, so you are on the right track.

Dr Watt—I would be very surprised—

Senator Minchin—Don't start that again, Senator Evans.

Senator CHRIS EVANS—None of them can fly over water!

Dr Watt—if what happened in Tiger had any effect on the overall Defence estimates, which is our first concern in relation to estimates accuracy. Secondly, the next question is: what difference did it make to Defence's overall capital expenditure? Given the number of things that move in that particular component at any point in time, an interesting question if you could ask it would be: how much difference did it make? So, from the point of view of accuracy of estimates, I would be surprised if that had an impact for us; I really would. Would a bigger project? Sure. But that one is not the biggest, by any means.

There is an issue—and you are quite right, Senator, to highlight it—with cost estimates. This is really about cost estimates. You have said you are not suggesting deceit or anything like that, and there is a fair question to ask about whether Tiger is an issue about particular

cost estimates per se or it is simply that the project changed over time for a variety of reasons. In some ways it has. For example, we finished up a much earlier customer in the lead chain than we had planned when we went into this. We finished up, effectively, as the lead customer, which had never been our intention; it was just that the others fell behind. That imposed some additional costs on us. It would be a fair question as to whether that is a cost estimate problem or something that is much more complex. I think that is that difficulty.

Regarding our ability to get into a significant number of individual program estimates, we can do so much for what we have got, and it is hard to extend our ability further. As well, there is the point that, at the end of the day, this is something that Defence has to manage rather than us.

Senator MURRAY—That is not my point. I think that was the point that Senator Evans was driving at. It is not that you should do the job for them but that your oversight duty—I will put it that way—is to ensure, from your perspective, that they have the skills and ability to do the job adequately. Given the high reputation that Finance deservedly enjoy, I get the slight impression from your answers that there is a bit of a hands-off approach to this. That would be a pity. If that is the wrong impression, I would be glad to hear it.

Dr Watt—Let me try to put it another way. Our concern is first and foremost to make sure Defence have the skills to accurately produce budget estimates to put in the budget and ensure that the budget is as accurate as possible.

Senator MURRAY—And what about cost estimates?

Dr Watt—That is a concern that is less of ours, I have to say. Our first issue has to be the overall budget estimates. Our second issue would be their ability to cost estimates. That is something which, in relation to Defence equipment, they in fact probably know more than we do, with due deference to Mr Roach. In a sense, they are different issues.

Senator CHRIS EVANS—I accept there is a priority. But it is also true that, in response to Kinnaird, when the government provided assurances that it was the way forward, Finance's role was quite critical to that response. What we are trying to test today is whether that is effective. Given that we continue to have problems with Defence projects, I think it is reasonable for us to ask you: how is your performance going in improving that? You are part of the answer, Dr Watt. If you are part of the answer, let's have it.

Dr Watt—It is always nice to know, Senator, that you are part of the answer and not part of the problem. It is a reasonable question to ask. There is another reasonable point to be made—that is, the lead time for Kinnaird to have the right impacts. I can sit here and tell you that I think the Kinnaird process is making a difference, and I do. That is not just first and second pass; it is a whole lot of things. But, remember, Tiger never went through a first or second pass. First and second pass was not in place when Tiger was signed off on. Has it had the full benefit of the Kinnaird rigour that we have now, after having a transition period, had in place for the last several months? No, it has not. That is unfortunately true. Do I think we now have projects that have started and grown up as Kinnaird projects that will come out better because of the Kinnaird process? Yes, I do, but it will take a while for that to become evident.

Senator CHRIS EVANS—That is a fair point for you to make. But I would say to you that over the life of this government there have been, I think, four different reviews and changes of

process inside Defence—I stand to be corrected, but my memory is that there were four. It generally comes with each new minister, and every minister has an explanation for the legacy project of the previous minister and the previous system. It is wearing a bit thin as an excuse, to be honest.

You may be perfectly right about Kinnaird, but precedence is not on your side; history is not on your side in the sense that every new system, every other assurance provided to this estimates committee and every other explanation has proved to be a failure. I hope you are right. I do not pretend that this is not a problem for governments of either persuasion. When I was shadow defence minister I lay awake at night worrying about how the hell I would get on top of it if I actually got the job. Senator Minchin would say that I did not need to worry because there was a major barrier, and I accept that. But it is a problem I grapple with; so I do not underestimate the challenge. It is fair enough for you to state it, but I am not going to wear that this is all a new system and ‘don’t you worry about that, Senator’ while we are letting millions and billions of dollars leak out the door using the excuse that it was under the old system, it will all be right.

Senator Minchin—The fact is the Kinnaird process, which was a good one and which we were involved in, has only been in operation since 2004. That was the trigger for Finance having a significantly augmented role in costing proposals coming before the NSC for acquisition. To the extent that it has operated for those two years, we are very pleased with it. The proof of the pudding will be in the eating. A number of the projects that are controversial do predate it and some of them were projects initiated under the previous government—the Seasprites, submarines et cetera.

Senator CHRIS EVANS—I do not accept the argument about the Seasprites. That is factually wrong.

Senator Minchin—I thought you guys ordered them in 1995.

Senator CHRIS EVANS—No, that is not right. It was signed up by your first defence minister. It is a government spin that has been run for some months and has some currency with some journo.

Senator Minchin—I thought I read that from Defence.

Senator CHRIS EVANS—It is not actually right.

Senator Minchin—Anyway, you have been proper in saying that this applies under governments of both persuasions. Defence is not an easy beast to deal with. I am pleased that, to the extent that we are properly resourced, Finance can play a role in ensuring cost-effective delivery of capability, because we want to preserve the taxpayers’ interest. I think so far, so good.

Senator CHRIS EVANS—Do I take it to mean that when your publicity or government statements say, when discussing the cost centre in the Department of Finance and Administration et cetera, ‘strengthen the review of project costs and risks’ that we are talking about prospective projects and not existing projects?

Dr Watt—No, we are talking particularly about first and second pass, and that is projects under way now—

Senator CHRIS EVANS—This is in a separate paragraph when you go on. In your information you cover the one pass, two pass and then you go on to say:

- establishing cost centres in Defence and the Department of Finance and Administration, which will build on Defence's decision to establish a Cost Assessment Group;
- strengthen the review of project costs and risks; and provide a quality assurance role for the Government ...

I am trying to ascertain whether you are saying to me that that applies only to post Kinnaird review projects or can we expect you to play a role in strengthening the review of project costs and risks for projects signed up before 2004?

Dr Watt—As Mr Roach said, in so far as those projects come back into the National Security Committee decision-making ambit, the answer is yes. We would mostly play a role outside first and second pass in matters that are coming back and forward to cabinet.

Senator Minchin—The point is whether it is pre or post Kinnaird. Finance is not involved in the day-to-day management of acquisition projects.

Senator CHRIS EVANS—You and Dr Watt have both got that on the record, Minister. I am sure you are pleased it is.

Senator Minchin—It is an important point.

Senator CHRIS EVANS—I know it is. I know it is not a point made for my purpose.

Dr Watt—Could I also be fair to Defence in that this is the most complex costing environment in which, I think it is fair to say, we operate. It is by a factor of a number—it is not just a bit more complex than some of the other things we do; it really is a very complex environment for estimating costs of projects where the platforms last for 30 years and they evolve enormously over that period simply because of the technology and demands involved. It really is the most complex thing we do. We do not sell that short, and I know you would not sell it short. It is important that people get that message.

Senator CHRIS EVANS—I accept that. I am trying to nail down what your role is here. I took some comfort from the fact that Finance was involving itself in some of this decision-making. I have less comfort now that you have explained your role. You may not be interested in whether I have more or less comfort, but I have less comfort from what you have told me about what your role is. We understand that the Tiger helicopter project, for instance, has not raised the red light in one sense yet because Defence have not advised you that that is an unmanageable cost change, even though it is in the order of \$625 million, subject to finalisation. The other area you talked about, Mr Roach, was your role in dealing with timeframe of delivery and capability. What was the phrase you used—the three functions?

Mr Roach—Just to clarify about projects in second pass, the approval that comes out of NSC is usually quarantined for the actual acquisition project. It will have a described scope in terms of what the government wants to get out of the acquisition. It will have a cost and a schedule. There is obviously contingency built in to cost. It is when those things are breached that it would come back into the NSC environment. But through life aspects, which relates to the Tiger issue and what it might cost to support that through its life, is not of itself something that would breach that NSC approval. That would be an issue that Defence would have to see

whether they could manage from their operating budget. They would raise that issue if they felt they needed to in the normal course of the budget process.

Senator CHRIS EVANS—I accept that they are the rules under which you operate. I am not very happy with them, but I accept that that is the process. If the through-life support costs increasing by \$625 million do not set off a red light in Finance, did the decision to lower the contract specifications and the performance requirements of the Tiger—when Defence decided to pay the same amount of money for a reduced capability—trigger a red light inside Finance?

Mr Roach—We are simply not privy to that.

Senator CHRIS EVANS—So you were not informed in 2002 when they reached an agreement with the contractor to reduce the specifications required in the contract?

Mr Roach—I would want to check that, but I believe that is the case.

Dr Watt—We can take that on notice, but I think Mr Roach is right. We would not normally expect to be privy to that.

Senator CHRIS EVANS—According to the evidence of ANAO, no-one was, and Defence only told them in the last month of their 13-month audit. I was interested to see who other than Defence was in the loop. In terms of the first and second pass, I know you provide input into Defence, but do you carry out separate assessments? If Defence come up and say, 'The Tiger will only cost us \$1.5 billion and the through life costs over 20 years are only \$1.2 billion,' and you think that that is not right and Defence persists, what is the process? What is the process when you think that that is not right? How do you work that out?

Dr Watt—The normal process in relation to any costing—it is not just Defence ones; Defence is just more complex—is for Defence to provide estimates and for us to test those estimates, based on similar projects, experience elsewhere and what looks reasonable. Joe, what else is there?

Mr Roach—The key thing is that first of all they provide us with a lot more information, under the Kinnaird process, than was formerly the case. So we have real information to work with.

Dr Watt—And, incidentally, usually earlier in the cabinet decision-making process.

Mr Roach—We are able to see and to test with Defence the assumptions that they have made in coming up with their costs. What is most important to us is to identify the things that really do drive the cost and how much risk is attached to those. We try to do that by benchmarking against similar projects either before or overseas. As you know, Defence is required to put forward an off-the-shelf option—something that can be tested because it has had real world experience elsewhere.

Senator CHRIS EVANS—That was supposedly the case with the Tiger.

Mr Roach—That, I believe, was the intended case.

Senator CHRIS EVANS—It turned out not to be the case.

Mr Roach—That is true.

Senator CHRIS EVANS—They would have assured you that the Tiger was an off-the-shelf option.

Dr Watt—The important point to make is the difference between what may have been decided at cabinet and what evolved. The estimate may have been perfectly accurate at that point in time. The best cost estimator would not have come up with something different. What then evolved over time—

Senator CHRIS EVANS—But your role is to assess the risk. What I am trying to get at is how the interaction between you and Defence works. Are you always confident that at the end you will arrive at the same decision, or does Finance occasionally knock heads with Defence about those assessments?

Mr Roach—The question is best answered this way: in the case of the Tiger, whether it was off the shelf or not, at the time that decision was taken the resources available to Finance to test that were really very limited. They are now significantly greater. One of the things that we do is to test the accuracy of claims that something is off the shelf. Part of the Kinnaird process was to introduce a process of defining and describing technical risk, called the technical risk levels. Defence does a formal technical risk assessment. That is an extremely valuable tool for assessing where particular options are in terms of maturity. We look at that very closely.

Senator CHRIS EVANS—Let me make it clear that I am not trying to pin the Tiger on anyone, but I am interested in your role in a project like that now. You seem to me to be saying, ‘Because the first and second pass system was not in, we didn’t have a lot to do with the acquisition.’ But you are also saying to me that, because you only have responsibility for the first three years of through-life support, you do not have a lot of visibility on the rest of the project.

Mr Roach—No. Let me again set out the way the system works. In a Defence capital acquisition project, a DCP project, the acquisition part of that project will normally only include effectively the spares and support required to transition new equipment into service. That is generally believed to be about three years of inventory and training et cetera. That is what forms part of the formal capital project approval. As part of the first and second pass process, we are required to look at the estimates for whole-of-life cost. We do that. Defence produces those estimates and we go over them. We pay particular attention to whether Defence is estimating an increase for which it would need to take money out of its net personnel and operating costs provision to support the new equipment in service. So we do look at it. The information for that is generally not as robust as for acquisition, unless the equipment has been in service somewhere for some time.

Senator CHRIS EVANS—Just briefly, what is your ongoing role in monitoring the risk of the Tiger helicopter project?

Mr Roach—In all DCP projects we receive a report from Defence at regular intervals which gives us a snapshot of their view of how projects are tracking. If projects are showing significant problems, we would certainly engage with Defence on that and we would test whether Defence really are confident that they can still deliver the project within the bounds set by NSC. If they cannot then we would recommend to the minister that it be brought back.

Senator CHRIS EVANS—Thank you for that. But what is the answer to the question? What is the involvement currently of Finance with the Tiger helicopter project?

Mr Roach—At present, in terms of the ongoing review, very little. We have briefed the minister on the problems that Defence have shown us.

Senator CHRIS EVANS—Thank you.

Senator Minchin—I want to report that, in relation to the question about detail on act of grace payments for Defence in relation to Iraq, after consultation with Defence they have asked that those questions be placed on notice and referred to Defence for an answer. So I report that.

Senator CHRIS EVANS—I can assure you that they will not be placed on notice but we will be taking it up at Defence estimates.

Senator Minchin—Fair enough. That is your prerogative.

Senator CHRIS EVANS—I am sure that I speak for Senator Faulkner in saying that that will be the case.

Senator Minchin—Okay. We will forewarn Defence. Senator Faulkner asked me about the protocol between the AEC and DOFA on electoral matters. I have here a letter I would like to table dated 11 February 2002 from the then Special Minister of State, Senator Eric Abetz, to Senator John Faulkner, then Leader of the Opposition in the Senate, attaching for his information a copy of said protocol. I table that.

Senator CHRIS EVANS—I take it that it is implicit in that that the protocol has not changed?

Senator Minchin—I can assure the Senate that I have received assurances that that protocol has not changed from the date on which it was sent to Senator Faulkner in 2002.

CHAIR—Thank you.

Proceedings suspended from 1.17 pm to 2.17 pm

Future Fund Management Agency

CHAIR—I call the committee to order. As a matter of record, I understand that the secretariat has mentioned on behalf of the committee that we will not be requiring the Commonwealth Grants Commission. With that, the committee will now examine the Future Fund Management Agency. I welcome Mr Murray and Mr Barnes. We will kick off with some general questions relating to the agency.

Senator SHERRY—Can I just clarify that we are dealing with the advisory unit as well, as I understand it. There may be some crossover.

Mr Murray—Yes, Senator. The unit's representatives are sitting on my right.

Senator SHERRY—Thank you, Mr Murray. You seem to have a reluctance to come to the estimates. Would you like to outline your reasoning for that?

Mr Murray—In the time I have had any involvement there have been, I think, two committee meetings: one earlier in the year and this one. Earlier in the year, there was no Future Fund in existence, so there was no reason. I was dealing as a consultant with the

department of finance and therefore there was no reason or basis for me to be at the committee meeting, as I understand the process. With this meeting, my working assumption was that since my role is a part-time one and we had briefed Mr Barnes to be able to come along—he is the interim head of the agency on a secondment basis—and answer all the questions, I felt that it was not necessary for me to be here. But I had a discussion with the secretary and was able to change my arrangements, and I am grateful that he helped do that.

Senator SHERRY—Thanks for that. I did observe that you had made a comment in one of your speeches that you were now a public servant, so I thought you might be here with a cardigan on!

Mr Murray—That was a little bit of mirth that was common around the bank at one time. In fact, a very senior executive joined the bank from a prominent industrial company and they gave him a present of a cardigan on his farewell, so the myth is still there.

Senator SHERRY—I did take it with a touch of humour when I read the comments.

Senator Minchin—Senator Sherry, just on this general question, I think I gave an undertaking on behalf of the government, when we talked initially about the Future Fund, that representatives of the fund would appear at estimates and senators would have the opportunity to question the fund representatives on its management. I certainly appreciate that Mr Murray is able to come today. Indeed, I appreciate that he has undertaken the role of chairman. In future it would be a matter for Mr Murray himself to decide, but the secretary of the department and I envisage that the chief investment officer would be the one who would in the normal course of events appear at estimates. But at any stage it would be open to Mr Murray to appear if he so chose.

Senator SHERRY—The point was that—and I think I made it at a closed hearing of the committee—there were some issues that Mr Murray had spoken about publicly in the last few months that we wanted to touch on. I am sure there are other issues that are of public interest. You made yourself available to the public, or at least those in attendance, on those occasions. We are interested in exploring some matters that came from those comments—probably more so, I suspect, because you are in a formulation period, a period of gathering together, and therefore any public comments you make attract a not unreasonable level of interest. We will explore some of those issues today.

Mr Murray—My approach has been to try to understand the extent to which the role of the Future Fund is understood. There is a lot of misunderstanding about its role and the way the legislation works. I was particularly concerned that the *Financial Review* published an article which misrepresented the sorts of returns that should be available to a fund over the long term. I felt obliged to correct that. Fortunately, some other journalists disagreed with it as well. I think that the Future Fund is not likely to attract skilful people and is not likely to have the sort of support it should have if there can be misleading articles published about it and not responded to.

Senator SHERRY—That is a specific issue I wanted to explore a little. Do not get me wrong, Mr Murray. I am not suggesting you should not be making public comments. I understand why and accept that that is appropriate, both now and in the future. I do not have any particular concern about that.

Senator WONG—Mr Murray, I have a few brief questions regarding the governance structure of the fund. Senator Minchin, you mentioned the CIO attending. Mr Murray, I understand that the structure is that you have a chairman, who is you, and a chief investment officer but there is no chief executive. Can you explain to me why that decision was taken?

Mr Murray—We are still in the process of determining how we will appoint somebody effectively to run the agency. They will have substantial delegated authority from the board. It is our expectation at the moment that the CEO and the chief investment officer will be the one person. This is quite a small operation—maybe 25 to 50 people. If we are comfortable that we can get the right operational outcome, as distinct from an investment outcome, by combining those roles, we will go ahead that way. A little bit hangs on the nature of the people who express interest in the role. We want to be a bit flexible about that.

Senator WONG—A CIO obviously has primary responsibility for managing the investment mandate, correct?

Mr Murray—That is right.

Senator WONG—This is as opposed to a CEO, who has, I suppose, the operational management of the agency. Are you saying to me that you think both those roles can be adequately performed by one person?

Mr Murray—With two qualifications. The first is that that person can adequately supervise what would be an operations manager and the second is that our governance arrangements ensure that we have not combined investment and operations and have inadequate system of internal controls as a result.

Senator WONG—Of course they will be combined; it is the same person who is at the top of the tree in both streams.

Mr Murray—Yes, but it is possible, for example, for an internal auditor to report directly to me. We would have to be comfortable with the internal controls and the capability of the person.

Senator WONG—This combination of CEO and CIO was not part of the government's announcement about the governance of the fund, was it?

Mr Murray—No, that is a matter for the organisational structure of the agency.

Senator WONG—Whose idea is it to combine the two roles—CEO and CIO?

Mr Murray—Mine.

Senator WONG—That is a view you put to government prior to the establishment of the agency being announced and the fund being announced?

Mr Murray—We looked at a number of structures just to understand how these funds operate and there was no particular view expressed or preference at that stage.

Senator WONG—As chairman, given the joint position that you are talking about—CIO and CEO—you would concede that there obviously could be a reasonable workload for somebody trying to manage quite disparate roles—operational and investment. Do you envisage there would be some CEO functions that you as chairman would have to undertake?

Mr Murray—My starting position would be preferably not. I would feel more comfortable if the person who runs the agency and has responsibility for the investment has ownership of that process. That usually results in better outcomes. I would prefer to delegate as much as possible, but of course I cannot delegate the responsibility.

Senator WONG—Mr Murray, you are aware from a previous life that the ASX guidelines—the corporate governance guidelines—identify as part of their recommendations that the role of chairperson and CEO should not be exercised by the same individual. Can you explain to me why, under the current structure that the government has announced, the Future Fund does not comply with the Australian Stock Exchange corporate governance guidelines?

Mr Murray—I would have to defer to the Department of Finance and Administration because the Future Fund needs to have a board with a degree of independence but it has to comply with the FMA Act. That is my understanding but I think the department would be better able to describe that.

Senator WONG—I was not asking you about the independence of the chair, which is also one of the guidelines; I was asking about the separation that is emphasised—I do not think that is too strong a way of putting it—in the corporate governance guidelines, which say you need to have a chair and CEO separately and those functions ought not be exercised by the same individual.

Mr Murray—That is right, but this is not a listed corporation.

Senator WONG—That is the justification for not complying with the ASX guidelines—it is not a listed company. Is that right?

Mr Murray—I would have to defer to the department because the Future Fund is an inside-government agency and must comply with the FMA Act, and that requires the structure to be established a certain way. But that is not my area of expertise.

Ms Doran—I can add to Mr Murray's answer. The governance structure that does apply to the Future Fund board and the Future Fund agency really sees the two bodies as separate entities. The Future Fund Management Agency, as Mr Murray has said, is covered under the FMA Act. The chief executive is the independent CEO of that FMA entity.

Senator WONG—And that is Mr Murray, is it?

Ms Doran—Yes, in law.

Senator WONG—In law he is the CEO of the FFMA—is that what it is called?

Ms Doran—That is right. That is a responsibility that it is anticipated he will delegate to his appointed general manager, for want of another title. The board of the Future Fund is not a governing board of that agency. The Future Fund board has specific roles which are limited to the investment management of the moneys. In his capacity as chair of that board, Mr Murray heads the collective responsibilities for that investment management role. So there is separation of the two roles in that governance structure.

Senator WONG—Let us just unpack that a little bit very briefly. I know that Senator Sherry is itching to ask more questions. The CEO of the agency is, effectively, the analogous position to the CEO of a listed company—correct?

Ms Doran—Yes.

Senator WONG—And that is Mr Murray. He is also the chair of the board?

Ms Doran—That is right.

Senator WONG—Is it a requirement in terms of his appointment to the agency that he delegate the CEO function of the agency or not?

Ms Doran—It is not a requirement.

Senator WONG—So he could continue to exercise both functions?

Ms Doran—That is right. But I think that the point of separation is that, in his role as chair of the board, that board is not the governing board of the entity for which he is the CEO. So they have quite separate functions.

Senator WONG—But the government has announced the board. The government has also appointed Mr Murray as CEO of the agency. You are indicating to me that the assumption is that Mr Murray will delegate that CEO function of the agency, but there is no requirement for him to do so?

Ms Doran—That is correct.

Senator WONG—Under the relevant act or whatever legislation governs the appointment of this board, was it a requirement that Mr Murray hold both positions concurrently—that is, chair of the board and CEO of the agency—or was that simply a decision made within government?

Ms Doran—That is the anticipated structure of the—

Senator WONG—Was there any legal requirement for the person to be one and the same?

Ms Doran—I would have to check that. Can I take that one on notice and come back with an answer a little later?

Senator WONG—I am trying to discern the basis of the reason for the government making a decision to appoint Mr Murray as both chair and CEO. Was that a policy decision or a political decision or is there actually a legal requirement?

Ms Doran—I have just confirmed that it is in fact a legal requirement that that position be held by the one person. It was a policy decision in establishing the governance structure for these arrangements.

Senator WONG—The position must be held by one person. It is not a legal requirement that that person be the same person as the chair of the board, though, is it?

Ms Doran—It is. The structure anticipates or requires that one person fulfil—

Senator WONG—Under the legislation establishing the fund?

Ms Doran—In the Future Fund Act itself.

Senator WONG—So there was a decision made in the drawing-up of that legislation that the positions be held concurrently?

Ms Doran—That is right.

Senator WONG—Did Finance or whoever issued drafting instructions for the legislation turn their minds to the ASX corporate governance guidelines and to the fact that the structure that was proposed does not comply?

Mr Mowbray-d'Arbela—The ASX guidelines were not relevant to this situation because the Future Fund Management Agency is being established under the Financial Management and Accountability Act in an executive management template rather than through the use of a governing board. The two terms I have used there are the ones in the Uhrig report on governance to distinguish an executive management structure from a governing board structure.

Senator WONG—In using that structure effectively it is still controlled by government as opposed to being an independent board. Is that right?

Mr Mowbray-d'Arbela—That is one way to look at it, yes.

Senator WONG—Everyone is nodding. I presume that means yes. Thank you.

Senator SHERRY—The guardians have been appointed. Mr Murray, I understand that you had an involvement in the process of selection.

Mr Murray—Yes, that is right.

Senator SHERRY—We have discussed this at previous hearings. You may be aware, and I suspect you are, that APRA are going through a process of licensing—which is to be completed shortly—superannuation funds in Australia, excluding self-managed funds. They are applying a fit and proper person test to trustees. We can argue about the extent of similarity between the Future Fund and a superannuation fund, but has a fit and proper person test been applied to the guardians appointed to the fund?

Mr Murray—Not that I am aware of.

Senator SHERRY—What test has been applied, if any?

Mr Murray—The extent of my advice was about the best way to structure the board, not about individual people. I felt that it needed different classes of people with different experiences and I advised the ministers on the best steps to take on the appointment process so that we did not find ourselves with a board that did not have the best balance of skills.

Senator SHERRY—Turning to those board appointments, have you considered conflicts of interest as an issue? At least some, perhaps all, of the individuals—some of whom I certainly know, and I have no particular complaint or criticism of them in terms of their capabilities—are employed in the finance sector at the moment. Have you considered the issue of potential conflict of interest in the management of assets of the fund?

Mr Murray—Yes. In the drafting of the act, considerable effort was put into the way the board must manage conflicts of interest. I also looked at what is regarded as best practice in the appointment of or the hiring and firing of managers. Usually that is best left to the investment professionals; otherwise, the board is more likely to look at the managers and less likely to look at the portfolio structure, which ultimately is the most important determinant of its returns. It is not likely, in the ordinary course of events, that conflicts would arise with that

group or, to the extent that they do, we would only have to exclude individuals from discussions and decisions on a random basis, not on a continual basis.

Senator SHERRY—So you appreciate, given the size of the portfolio that will be under management, I suppose, that there is a potential for conflict of interest in terms of the guardians? That seems to be quite obvious and it could be quite serious.

Mr Murray—Yes, it is there. Whether it is serious depends on the circumstances.

Senator SHERRY—Yes. But, with the size of the portfolio, I would be surprised if it did not arise at some point in time.

Mr Murray—In my view it would be nearly impossible to appoint a board of suitably experienced people who do not have their own assets, their own superannuation funds and their own involvements in things. That is why I gave consideration in particular to the appointment of managers and looked at best practice in that area. Apart from that, the legislation sets up the process we should go through to deal with conflicts as they arise. Just reiterating what I said before, it is unlikely that we would have significant numbers of people unable to participate in discussions and decisions at any one point in time.

Senator SHERRY—I accept your point that it would be very unlikely to find someone, certainly employed at the present time, where there was not a potential conflict. You would not have had a board. I appreciate that point. As I said, APRA have referred to the licensing of superannuation funds and have issued a substantial number of guidelines on a whole range of issues with respect to superannuation fund trustee boards. Are you examining any of those guidelines? It seems to me that the issues that they have been issuing guidelines on, in terms of the process—conflicts of interest, the investment plans of a particular fund and a whole range of other internal management issues—would be relevant, at least to some extent, to the experiences you will be going through.

Mr Murray—Yes. The decision was taken to put the conflict of interest processes in the legislation and the Future Fund is not subject to oversight by APRA. Therefore, in dealing with this issue, I have relied on my own experience. The capability of a chief executive and/or a chief investment officer to understand and deal with these things will be important as well.

Senator SHERRY—In APRA's case, over the last couple of years they have issued as part of this licence regime a whole series of guidelines—for example, on internal security within a fund and the management of that. And there are numerous other examples that it would seem to me are not dissimilar, in at least some of those requirements, to what would be required in a fund of this type.

Mr Murray—I am sure we will be drawing on those sorts of things, not just from APRA but from other sources, as we determine our policies and establish the systems of the agency. Bear in mind that our first investment mandate took effect yesterday, so it is pretty early days.

Senator SHERRY—I was going to get to that point. What is the status of the \$18 billion that it has been announced has been transferred? I would be interested to know where it actually is at the present time—what its position is.

Mr Murray—The \$18 billion was transferred to the agency about the time that the government delivered a draft mandate to the board. That \$18 billion was effectively, in the

ledgers of the government, from other departments to the bank accounts and the ledger accounts of the agency.

Senator Minchin—It has never left the Reserve Bank, Senator.

Senator SHERRY—It is still sitting in the Reserve Bank? Okay—that clarifies that. There was an impression that the money had moved into the agency into its own account, but that is not the case.

Mr Murray—That has now happened.

Senator Minchin—But it is held in the reserve.

Mr Murray—Yes. The agency has its own account but it is with the Reserve Bank and is part of the official public account.

Senator SHERRY—So the \$18 billion is now held in a separate account at the Reserve Bank.

Mr Murray—A number of accounts, yes.

Senator SHERRY—And those moneys will be invested over time?

Mr Murray—We will be attempting to do our best on the short-term yield curve. I do not want to invest in any other way until we have established all of our internal control systems and I have had a discussion with the Auditor-General about that.

Senator SHERRY—What is your anticipated return on the short-term yield curve?

Mr Murray—At the moment it is very flat; so all we are trying to do is beat the official cash rate by a few basis points but have cash available for investment when we think that we will need it.

Senator SHERRY—On the status of the guardians, there was some discussion at the last meeting. They had been appointed and, I think, were awaiting the outcome of a Remuneration Tribunal decision. What is the status of that?

Mr Murray—That determination has been made.

Senator SHERRY—Is it publicly available?

Ms Doran—Yes.

Senator SHERRY—Could you give me the figures, please. I have not searched for them.

Ms Doran—The determination of the Remuneration Tribunal was for an annual remuneration of \$150,000 for the position of chair and \$75,000 for the members of the Board of Guardians.

Senator SHERRY—Refresh my memory—how many guardians have been appointed, aside from the chair?

Ms Doran—Six have been appointed.

Dr Watt—I have to clarify one point about the Future Fund account at the Reserve Bank: it is part of the CRF, not part of the official public account.

Senator SHERRY—In terms of recruitment, what is the position as of today? Have any staff been recruited yet?

Mr Murray—We have staff on secondment from the department of finance, most of whom were in the Future Fund task force prior to its establishment. They are now headed by Rob Barnes, who is sitting to my left. He is the interim manager of the agency. There have been some delegations to allow him to deal with day-to-day matters. He will remain in that role with a small number of other people until we appoint a general manager and chief investment officer, and then fill out with our premises, our equipment, our operating systems and our staff.

Senator SHERRY—Do you have specific premises yet?

Mr Murray—No. I first looked at a number of sites in Melbourne late last year, because of the lead time problem. We have identified some possibilities and are in the process of negotiating on some premises, and I would like to get that done as soon as I can.

Senator SHERRY—Just coming back to staff, have there been advertisements placed yet for the financial officer and the CEO?

Mr Murray—Yes. The search agency have their own list of names. We have advertised nationally in the newspaper and in the *Gazette* under the normal Public Service Act requirements.

Senator SHERRY—When is it anticipated that those appointments would be made?

Mr Murray—The deadline for responses is 1 June. We have to go through the normal Public Service Act requirement with a panel of people to do interviews. That should take a month or so. A lot will depend on who our favourite candidate is and whether they can be released from their current role.

Senator SHERRY—Presumably, the bulk of staff would flow after those appointments have been made?

Mr Murray—Yes, that is the way I would prefer to run it, because I want that person to take responsibility for the structure and the people.

Senator SHERRY—Do you have an indicative time frame for when you would hope to have the bulk of staff employed?

Mr Murray—No. Until the premises and the fit-out are clear and the nature of the person we are employing is known it is hard to be firm about that.

Senator SHERRY—Is there any indicative date on the premises themselves?

Mr Murray—Not at this stage, but the fit-out takes a little while.

Senator SHERRY—I gather from what you are saying that there will not be a significant purchase of assets until all that has occurred?

Mr Murray—Yes, and the internal control systems in particular.

Senator SHERRY—Can you describe for the committee what you see as the macroeconomic role of the Future Fund?

Mr Murray—My view about that has to do with my enthusiasm for the Future Fund. It should in normal circumstances help the economy through economic cycles. For example, if savings are increased when the terms of trade are strong, there is a better environment for investment in capacity through the cycle, because it is more likely that the cost of capital to the private sector would be lower than had those savings not been made.

Senator SHERRY—Do you think the Future Fund will improve our terms of trade?

Mr Murray—No, but the Future Fund would help the investment process to take advantage of the terms of trade.

Senator SHERRY—With respect to the underfunding of public sector superannuation, the ability to meet the capabilities at a Commonwealth level in Australia have been met from on-budget. That is still the case in state jurisdictions to varying degrees. Do you have any observation to make about that?

Mr Murray—Firstly, my own experience from a long time ago when there was a significant up-tick in inflation was that the Commonwealth Bank, which had a sizeable superannuation fund, had to increase its annual contributions to that fund to some 22 per cent of salaries to keep it in balance. Because that was done, it has made a big difference to the capability of that organisation to manage its total staff costs in later years. I believe it is more prudent to fund as one goes. It seems to me as well that the Commonwealth government, through the Corporations Law and accounting standards, effectively encourages all employers to fund as they go. The trend in Australia at the state level has been to carefully question why those liabilities should grow, and in fact the preference is for them to reduce year by year.

Senator SHERRY—In fact, the level of growth has been reduced because most of the funds have been shut to new entrants, and that is true of the major Commonwealth funds, with one exception, isn't it?

Mr Murray—As I understand it, yes.

Senator SHERRY—Do you think the Future Fund will facilitate productivity growth? If so, in what way?

Mr Murray—If the cost of capital to the private sector is lower because of the Future Fund than it would otherwise have been then the capital deepening process which encourages productivity would be better than it would otherwise have been.

Senator SHERRY—Do you think it will facilitate inflows of capital from overseas?

Mr Murray—Only because part of that investment process relies on us being in the global savings market. If Australia is more attractive because of its economic management, then there will be competition for investments from both offshore and onshore.

Senator SHERRY—And also because of our need to import capital?

Mr Murray—Yes.

Senator SHERRY—What about facilitation of infrastructure? I am talking about physical infrastructure investment here—the definition can be pretty broad at times. Do you have any comment or observation to make about the ability of the Future Fund to stimulate investment in infrastructure?

Mr Murray—As its mandate in the legislation currently stands, it would do so indirectly by investing in pooled investment vehicles, which would have as some or all of their assets infrastructure assets. The issue to be determined here is whether the board of the Future Fund tries to select assets rather than allow the portfolio to be built in a balanced way. If it does that, it is less likely to be successful in its long-term returns. If the market has to compete for assets, then the best assets will get selected and they will be in the pooled investment vehicles in which the Future Fund will invest.

Senator SHERRY—You said ‘indirectly’. It is correct that you cannot directly invest in infrastructure?

Mr Murray—That is right.

Senator SHERRY—Isn’t that to some extent, depending on circumstances, a slight splitting of hairs? Wouldn’t it depend on the size of the pooled investment vehicle? It may be limited to very few investments.

Mr Murray—I am not sure I understand the question, but the fund, through its managers, will be trying to diversify its assets. So there will always be a limit on how much it would invest in infrastructure.

Senator SHERRY—I understand that. What I was getting at was this: you are prohibited from investing in, say, a road—direct investment. You may have a pooled investment structure that invests in two or three roads which you are not prohibited from investing in, if that is the nature of that pooled investment. It is my understanding that you would not be prohibited.

Mr Murray—That is right.

Senator SHERRY—So you could have a pooled indirect investment that in fact can be quite direct in reality by the confines of the assets that that pooled investment structure owns.

Mr Murray—Yes, there could be a single asset—in your terms, a single road—that is in a listed public trust as its only asset. In that situation, investment managers for the fund might own shares in that trust, but they will be trying to diversify the assets. Plus there is an individual limit of 20 per cent—the Corporations Law takeover limit—that they could invest in any event.

Senator SHERRY—What do you understand to be the starting position for the balance of the fund as at 30 June 2007?

Mr Murray—I am only working from public comments that the Treasurer has made. He has suggested that there will be a further surplus with the budget outcome this year that will be added to the \$18 billion. He suggested publicly in the media that that might make the balance around \$30 billion. Although there is no firm position, it has been suggested that the proceeds of the Telstra sale, if it occurs, would be added to the fund.

Senator SHERRY—Perhaps the minister could confirm or otherwise the position of the Telstra sale proceeds.

Senator Minchin—We made it clear in establishing this fund that decisions on contributions to the fund by the government would be made ex post and not in advance. We will make discrete decisions, following budget outcomes and the sale of assets, on their merits

in each case. As Mr Murray has indicated, the Treasurer has suggested that, when we get the final budget outcome for 2005-06, there could be a further contribution to the fund. But that would be a separate and discrete government decision at the time that we have confirmation of the final budget outcome. So far as Telstra is concerned, at this stage it is hypothetical, but when or if we have proceeds we will then make—

Senator SHERRY—But you are not suggesting a share price decline that gives you zero outcome, I hope.

Senator Minchin—No, we may not sell it. I have left open the possibility that there may not be a sale in the immediate future. That is what I mean by hypothetical. As and when or if we have proceeds from a sale of all or some of our shares, we would then make a decision about whether or not those proceeds would be contributed to the fund. The Treasurer and I have said that, as a matter of general principle, it would be probable that those proceeds would go to the Future Fund, but that would be a matter for a separate government decision. The budget, as you know, assumes, for the purposes of the budget, a sale in 2006-07 and that the proceeds of that sale will go to the Future Fund. But that is a budgeting assumption, not a government decision.

Senator SHERRY—As to the likelihood of the Future Fund owning Telstra shares to the extent that it is a diversified fund, we have discussed this before but the view that I think you have reflected is that there would be a direct transfer—they would not be sold to the Future Fund. Do you still hold to that view?

Senator Minchin—I think we actually put into the legislation a prohibition because there is no point in us selling the shares and the fund buying them back. So there would be a negotiated transfer of shares at the time on the basis of presuming that it would have a market weighting in Telstra. But we have obviously left ourselves the discretion—and we have discussed this publicly—of transferring an above-weight holding of Telstra shares to the Future Fund if that is the government's decision.

Senator SHERRY—Mr Murray, have you given any consideration to the implications of an above-weight transfer of Telstra shares to the Future Fund in terms of sell-down?

Mr Murray—Yes, there are probably three issues if that occurs. The first issue is that, in precedents in the market around the world, there has generally been an escrow period before which any shares can be sold. The second issue is that a single holding of shares of that size would distort the portfolio structure and performance. Therefore, one has to separate the calculation of the performance of the fund, with the Telstra shares on one hand and the balance of the fund on the other. The third issue is that, given that there is no commitment of funds year by year from the government, for the board to try to reach its target—that is, the superannuation liability—it needs to perform well and have a balanced portfolio. It would be more likely that the board would feel that getting the shares down to a normal weighted position and putting the cash in the normal fund would be more likely to reach the target that is set for the Future Fund. That is just the application of normal portfolio theory to the problem.

Senator SHERRY—Meeting the target is, of course, dependent on both moneys paid into the fund and the rate of return. Isn't the expected rate of return for the Future Fund in the

short, medium and long term—and we have had a discussion with Ms Doran about this—of 4.5 per cent to 5.5 per cent underwhelming?

Mr Murray—I do not think so. Firstly, it is a real rate of return. We would have to add 2½ to three per cent inflation to that. If one were to look at five-year returns on balanced funds or 10-year returns, which reflect very long term outcomes in history, and use an asset allocation, which would be normal for these sorts of funds, on the latest five-year numbers the return would be around seven per cent.

Senator SHERRY—Is that real?

Mr Murray—Seven per cent real. But if you go to the 10-year numbers and the historical returns—which would take in the seventies and eighties if you go further back—the rate is 4.9 per cent. Looking at some recent research in the market by people such as Goldman Sachs, on this sort of asset allocation, expected real returns would be 5.4 per cent to 5.9 per cent. So the target looks reasonable. Whether it reaches the target depends on the money put in as well as that return.

Senator SHERRY—Do you expect any economy of scale in terms of investment management charges?

Mr Murray—If we add up the numbers I suggested earlier, yes we would, although it is not a huge fund. I think the largest fund in the Australian market is around \$130 billion now. The total market would be \$750 billion to \$800 billion. So let us say that we had \$50 billion, that is not that large in the scheme of things, but it is as a size where we should get some decent breaks.

Senator SHERRY—Do you have any idea of those decent breaks?

Mr Murray—Not at this stage, because we have not started the process of formulating our policies at the board.

Senator SHERRY—In assessing the rates of return, have you looked at the rates of return of the CSS or PSS and their record?

Mr Murray—Not specifically. I have looked at overall market returns.

Senator SHERRY—You will not be paying commissions, I hope.

Mr Murray—Commissions to?

Senator SHERRY—Commissions on the money invested.

Mr Murray—I am sorry, but—

Senator SHERRY—Commissions is a matter of much public contention. This is the economy of scale argument—that is, you are able to get a better deal if you bulk purchase versus an individual who, on many occasions, has to pay a commission for the privilege of investing their money on an individual basis.

Mr Murray—No, we do not have investment advisers; we only have managers.

Senator SHERRY—Have you given any consideration to the managers being paid at least partly on the basis of performance?

Mr Murray—No, we have not at this stage.

Senator SHERRY—Do you think that is an issue that you would want to examine?

Mr Murray—We are required to look at best practice institutional investment around the world. But the more important issue to me is that the information systems we have can look through the structures of our managers and construct our own portfolio and we have the capacity through our managers to adjust that portfolio. That is where the best outcome lies.

Senator SHERRY—Have you given any consideration to the mix of asset classes that the Future Fund intends to invest in?

Mr Murray—Not at this stage—we have not formulated our policies—but it would be a mix, like a long-term superannuation fund.

Senator SHERRY—What about overseas investment?

Mr Murray—That should be part of it and that is increasingly a part of Australian funds now.

Senator SHERRY—Have you given any consideration to the weighing in overseas investment?

Mr Murray—Not at this stage.

Senator SHERRY—If the Future Fund were to own, for example, Fairfax shares, how would that show up in the budget papers?

Mr Murray—My understanding, and perhaps the department can clarify this, is that it would not.

Senator SHERRY—Does the department have the same view?

Ms Doran—That would be correct.

Senator SHERRY—Coming back to the issue of the Telstra shares that are transferred into the Future Fund—some may be not sold or all may be not sold, if that is the case—a price is set by the Minister for Finance, and Treasury, at, say, \$3.85. How would that show up in the budget papers?

Dr Watt—Sorry, could you repeat the question?

Senator SHERRY—X amount of Telstra shares are transferred into the Future Fund at a price—I am using a price of \$3.85; it might be higher, it might be lower—how would that transfer show up in the budget papers? How would it be treated?

Dr Watt—We can get the answer for you in detail. It would effectively involve the Commonwealth exchanging one form of investment for another. The effect on the balance sheet should be unchanged, because the Future Fund is inside the general government—

Senator SHERRY—An officer is coming to the table. To a different issue, I notice that we have a Future Fund advisory unit. Is that a guardian for the guardians?

Dr Watt—No, it is not. A new policy proposal was funded by the government in this year's budget for a very small unit inside the Department of Finance and Administration to provide advice to the minister on relevant Future Fund matters that he may wish to have advice on from his department as opposed to the board. It is normal for the minister to get advice from his own department on certain issues. That is a standard of our system of government. It

would also handle matters such as board appointments and correspondence. If the CSS and the PSS are any benchmarks to go on, the number of letters about the Future Fund that the minister will get and will need to respond to will be very extensive.

Senator SHERRY—I think that is very different. There are individual beneficiaries flowing from the PSS and the CSS.

Dr Watt—That is true. We get those and some campaigns as well.

Senator SHERRY—I suspect that would be the bulk of the correspondence.

Dr Watt—We suspect that we will get quite a few campaigns on the Future Fund, such as on ethical investing, for example—I am sure we will hear something about that—and they will have to answer all of those. They would do the normal things that a small unit in a department would do when there is another major agency in the portfolio and where the minister has an interest in getting advice from his department.

Senator SHERRY—Page 25 of the PBS shows that \$700,000 per year is provided for this new unit. What is the anticipated level of staffing?

Dr Watt—Call it four.

Senator SHERRY—We will call it four. We have the CSS and the PSS with their moneys for public sector super liabilities. We have the Future Fund and now we have this advisory unit. There are units everywhere.

Dr Watt—We have had this discussion, I think.

Senator SHERRY—I know, but it has got worse since we had the discussion. We now have an advisory unit.

Dr Watt—Not on the basis of \$700,000 a year.

Senator SHERRY—What is wrong with the minister's staff picking up the phone and ringing Mr Murray?

Dr Watt—I am sure the minister's staff will pick up the phone and ring Mr Murray, and I am very sure that the minister, from time to time, will have good, long, thorough and extensive discussions with Mr Murray as well occasionally.

Senator SHERRY—I am sure he will. But we now have another unit in this mix, with \$700,000 per year.

Dr Watt—It is a good investment.

Senator Minchin—Senator Sherry, I have ministerial responsibility and accountability to the public and the parliament for a new government entity, a future fund, which has a starting point of \$18 billion. I should be able to rely on my department for separate advice which might be needed and sought on issues relating to that responsibility that I have in the public arena, and that I cannot or should not appropriately take from the Future Fund itself. As in my responsibilities as shareholder minister for Telstra, Australia Post, Medibank Private and things of that sort, I receive advice from my department—as apart from just ringing up the managing director of one of those entities. I think it is appropriate. We have kept it modest. I

wanted to be sure when Dr Watt approached me about seeking budget funding for this that we did need the funds; they are modest, in terms of the responsibilities.

Senator SHERRY—A million here and a million there—it starts to add up. We have hundreds of government statutory organisations and we do not have advisory units in every department for all of those government agencies, do we?

Dr Watt—I think the point might be, more specifically, that we do not have government agencies that transparently tag the functions of what they do. It is quite common across the portfolio departments for there to be a unit within those departments which can provide the minister with quite proper advice on matters that the minister should not get advice on from the agency concerned, or solely from the agency concerned.

I will give you one very simple example: board appointments. It is quite proper that the chairman of the Future Fund would have views to put on future board appointments and that they would be put to the minister. There is also a problem with the minister having the ability to consider his own board appointments. So there are things where you do need this advice. It is common practice. It was endorsed in the Uhrig review, which said that ministers should have the opportunity to have advice in terms of GBEs and independent statutory officeholders from the department or entity on those functions. And that is all that this unit does. As I said, I think where we differ is we are more transparent than most.

Senator SHERRY—Maybe we should have had a wheat board advisory unit in the department of primary industry. That might have been a good idea, in retrospect. Who is going to head up this advisory unit? Has there been any appointment made yet?

Ms Campbell—Michael Cullhane is the branch manager of the unit.

Dr Watt—That branch currently includes, I think, the transition team as well.

Ms Campbell—We have one other member in that branch at the moment.

Dr Watt—We have not quite got to our four yet.

Senator SHERRY—Keeping an eye on costs, Dr Watt?

Senator MURRAY—Seven-hundred thousand dollars sounds a little expensive for four people.

Senator SHERRY—Seven-hundred thousand dollars?

Dr Watt—As well as four people there is funding in there for some actuarial work that we will need to do on a regular basis—the department, not the fund.

Senator SHERRY—Is that actuarial work to keep an eye on the expected rates of return, build up of the fund, meeting the crossover date for funding and those sorts of issues?

Mr Murray—The target asset level declaration under the legislation that could be done every year.

Senator SHERRY—I have to say, Senator Murray, I do not think, given the type of people you would need in this unit, that \$700,000 is an unreasonable amount for four people.

Senator Minchin—They are not going to be paid \$180,000 each.

Senator MURRAY—That would be unusual in the Public Service, I would have thought. That was my point.

Senator SHERRY—From everything I have seen in the finance services sector it is incredibly difficult to maintain and keep people with financial services expertise, given what is being paid in the private sector. Coming back to the issue of the share purchases, it seems to be very likely that the Future Fund will have Telstra shares transferred to it. I suggested a price of \$3.85—it might be higher; it might be lower. How would that be treated in the budget papers?

Ms Hazell—The current Australian government general government sector balance sheet shows equity investments. It would still show equity investments, as a general government sector still owns those shares. So there is effectively no change in the financial statements.

Senator SHERRY—If the Future Fund were to put shares in a listed investment vehicle that had 100 per cent of its assets in non-financial assets such as property, how would that show in the budget papers?

Ms Hazell—It is still equity and investments.

Senator SHERRY—It is treated in the same way?

Ms Hazell—Yes.

Senator SHERRY—What about the Future Fund directly purchasing financial assets? How would that show up in the budget papers?

Ms Hazell—It would still show up as an investment in a financial asset.

Senator SHERRY—How do the interest earnings show up in the budget papers?

Ms Hazell—The same way as interest earnings would show on any other investment at the moment. It depends on whether it is interest earnings or dividends and it depends on the nature of those earnings as to where it would show in the operating statement.

Senator SHERRY—Why don't we take both—interest earnings and dividends.

Ms Hazell—They would come through the general government sector operating statement.

Senator SHERRY—But the earnings stay in the fund, don't they?

Ms Hazell—Yes, but the fund is considered part of the general government sector for whole-of-government purposes.

Senator SHERRY—So if the earnings leave the fund they would reduce the fiscal balance?

Ms Campbell—The interest earned is reinvested in the fund.

Senator SHERRY—I understand that, but they are going to leave the fund at some point in time.

Ms Campbell—When?

Senator SHERRY—To pay the public sector super liabilities. How would they be treated in terms of the fiscal balance? They would reduce it when they leave the fund, wouldn't they?

Ms Campbell—Yes.

Dr Watt—Yes, they would reduce the fiscal balance, but you get an immediate offset because the government gets this transfer of those same resources—so net zero.

Senator SHERRY—The debt is being paid out.

Dr Watt—Nothing changes. It is the payment of the stream of liabilities that affects the budget balance. Whether we draw that from the Future Fund or not has no effect on the budget balance.

Senator SHERRY—If the Future Fund were to meet its liability target before 2020—and it is unlikely it is going to be spot on 2020 to the nearest day; it might even be a bit after—could it only acquit up to the Commonwealth's superannuation expense in that year?

Ms Doran—Yes. That is what the legislation provides for.

Senator SHERRY—If the liability target was reached by, for example, 2019, how would that show up in the budget papers?

Ms Doran—I think it is the same answer as previously: the benefit payments will show as an expense.

Senator SHERRY—Mr Murray, coming back to the investment models, you touched on the fact that you had examined similar types of funds. Can you give me some detail of the sorts of models you have examined and what you think is closest to the Future Fund model?

Mr Murray—The ones I took most interest in were normal balance superannuation funds and some of the endowments in the United States.

Senator SHERRY—I am not familiar with the endowment funds in the US. Why were they a particular interest?

Mr Murray—Because they take a very long term view and they have the same in-principle objective to smooth the budgets of the universities they serve. I thought the rate at which they can build up their assets through their risk-return appetite and their preparedness to be able to assist the university budget in bad years—the way they smooth that—were an interesting precedent for this sort of fund. It demonstrates that, in determining the asset allocation and the risk-return appetite, one should have regard to the effect on the portfolio when distributions start to be made from the fund. Since it is not wise to make frequent changes to the asset allocation, it is better to take all that into account at the start.

Senator SHERRY—Is investment by the fund in bonds likely?

Mr Murray—Yes. The fixed interest would be a small component of a normal portfolio.

Senator SHERRY—What about the Reserve Bank's attitude to investment in bonds?

Mr Murray—In framing the work, I discussed with Treasury the fact that the government has given an assurance to the market that it will keep the bonds on issue at a certain level to provide sufficient liquidity—particularly at the Sydney Futures Exchange—for proper conduct of that market. What we do not want to do with the Future Fund is to drain liquidity from the bond market, so we will act in a way that does not do that. That will require us to have further discussions with the Reserve Bank, Treasury and AOFM. I have also made that statement publicly, because there was considerable discussion about that market being

impaired. As you may recall, under the investment mandate we have a responsibility not to cause abnormal volatility in the markets.

Senator SHERRY—Yes. You got a good headline on that issue in the *Australian Financial Review*. That might have been to correct some impressions, as you say. ‘Future Fund won’t devour bond market.’

Mr Murray—Yes. The audience that I was speaking to was organised by AFMA. They are a body that takes a deep interest and is influential in these things.

Senator SHERRY—Can I confirm that the Future Fund is only able to spend on financial assets and that all earnings are to be retained in the fund and cannot be spent for any recurrent purposes?

Mr Murray—Except for the costs of the operation of the board and the agency.

Senator SHERRY—So the budget allocation for the costs would disappear?

Mr Murray—Yes.

Senator SHERRY—It will be met internally by the fund?

Mr Murray—Yes. I think that is correct.

Senator SHERRY—Can it be spent on capital—

Senator MURRAY—Just on that point, they would be reported in the annual report, wouldn’t they?

Mr Murray—Correct.

Senator SHERRY—Can it be spent on capital or non-recurrent purposes directly or indirectly?

Mr Murray—No, because that would be an investment in a non-financial asset.

Senator SHERRY—On the issue Senator Murray has raised, there will be an annual report, I assume?

Mr Murray—Yes. Our first one will be for the period 3 April to 30 June, so there is a lot of work to do.

Senator SHERRY—When do you anticipate that that would be issued?

Mr Murray—I think we have to do that within three months. From my discussion with the Auditor-General, we have to produce a financial outcome—which means all our interest at the Reserve Bank—by 20 July. In fact, those deadlines are very difficult.

Dr Watt—Just to clarify Senator Murray’s point, the Future Fund will also continue to do a portfolio budget statement report, so it will not just be an annual report. There will be a PBS for the estimates and an annual report for the outcomes.

Senator MURRAY—So you get the cross-reference.

Dr Watt—Yes.

Senator SHERRY—I am assuming that the Audit Office is able to examine the Future Fund—it is open to examination?

Mr Murray—They must under the FMA Act.

Dr Watt—In fact, we gave the Auditor-General some additional money this year in order to do so.

Senator MURRAY—They might need some more for Defence, though.

Senator SHERRY—How do the Future Fund earnings retention in the fund partially offset lost earnings from the sale of Telstra? Do they?

Dr Watt—I am not sure that we follow the question.

Senator Minchin—You mean the loss of dividends to government revenue?

Senator SHERRY—Yes. What is the accounting treatment for that?

Dr Watt—There are two separate things. The transfer of a Telstra share between the government and the fund would see a reduction in dividend revenue from the government outside the Future Fund but a boost in dividend earnings to the fund itself. Overall earnings would be unchanged. The difference is that that dividend would have to be retained inside the fund and the rest of the government sector would have a reduced flow of dividends on that basis.

Senator Minchin—That does overtly represent a fiscal tightening, which we have alluded to the public statements. We have made that point.

Dr Watt—It is broader than just Telstra shares. At the moment the interest that the Commonwealth government earns on any asset in the Reserve Bank is available as a source of income. Clearly, now that those assets have been transferred to the Future Fund they are no longer available as a source of income to the Commonwealth outside of the non-Future Fund Commonwealth government sector, if there is such an animal.

Senator SHERRY—I note that there is an assumption that the fund returns may drop below the bond rate of 4.5 to 5.5 per cent per annum, but there is a recognition that the ‘fund may have returns lower than this while the board develops and implements investment strategy’. How long are these returns—if it happens—below the bond rate expected to last?

Mr Murray—We do not know yet. We have got to get our systems in place. One normally would enter the market by using a transition manager because of the sums involved and then start to develop the shape of the portfolio after that. That could take some time. I do not know how long it will take but it could take a year.

Senator SHERRY—Mr Murray, earlier you were reflecting on your experiences with the Commonwealth Bank’s own defined benefits superannuation fund—it is obviously a legacy from government ownership. Isn’t it correct that employees contribute to the Commonwealth Bank’s defined benefit fund and the employer is required to contribute their share, if you like, into the fund and keep it in balance in the long term in terms of assets backing?

Mr Murray—Firstly, let me say that I still have some residual contractual obligations to the Commonwealth Bank so what I can say would be on the public record in the accounts of the bank. Going back to the period before it was privatised, the bank need not have kept those contributions up at that level. The fact that they did and the fact that markets turned around

meant that for some time now that fund has been in considerable surplus and it has not been necessary for the bank to make year-by-year contributions to the fund.

Senator SHERRY—I understand that, but the APRA requirement is to keep the fund well balanced. If markets were to turn down substantially, as has happened, the requirements on a private sector fund are for the employer to ensure full funding over time.

Mr Murray—Yes, and the accounting standards back that up now because there are costs to the PML of not doing so.

Senator SHERRY—That brings me back to a question that I know Senator Minchin and I have discussed on numerous occasions: why have a Future Fund in the first place? Why not deposit the employer's contribution to meet the liability in the existing superannuation funds—CSS and PSS—in the same way that the private sector is required to do?

Mr Murray—That is not my call, but I recall, from my experience in the Commonwealth Bank, that the bank was guaranteed by the Commonwealth, and there was considerable debate at one time whether, if there were a surplus in the fund, it belonged to the bank, which was in turn owned by the Commonwealth, or whether it belonged to the employees. It seemed to me to be not quite right to have a defined benefit guaranteed by the government and, if it runs into surplus, to put the hand out for some of the money. Given the trend in the treatment of surpluses in funds around the world, there is a possibility that ownership rights to that money could be confused if one combined the PSS with the Future Fund, simply because people would make a claim.

Senator SHERRY—But there is no surplus. If the moneys were put into the CSS/PSS, there is no way there would be a surplus for a considerable number of years. So it is not an issue of contention, is it?

Mr Murray—But there is a risk that arises.

Senator SHERRY—Even if it does, the issues have been determined by a court in Australia, as I understand. Last estimates we touched on a case that went to court—was it BP?—that went to the treatment by the employer of a surplus in a superannuation fund.

Mr Murray—I do not know that case but I recall that my own advice in the bank was that it was not clear or certain.

Senator SHERRY—As I understand the BP case, the employer got the money—if they wanted it—assuming a reasonable balance in the fund was retained over time. The point I was getting at is that we have set up a separate agency with duplicated costs and functions in some areas at least when the moneys if they were placed in the existing entities could achieve the same outcome.

Mr Murray—I do not think that is my call.

Senator Minchin—I do not think that is an appropriate question to Mr Murray. I appreciate the comments he has made on that question but it is a matter for government. It is a matter of policy. Senator Sherry, you know from previous estimates the basis of our decision, which was a considered one. I am sure, Senator Sherry, given your interest in this that you would be very pleased to have seen that we have appointed to the Future Fund board the

chairman of the CSS/PSS board, Susan Doyle. I think that she will make a great contribution to the Future Fund board.

Senator SHERRY—I am sure she will. I am not reflecting in any way on the individuals. In fact, my argument would be that Susan Doyle is so impressive it would have been better to put the moneys in the existing funds. But you have decided not to go down that route. I was hoping to draw Senator Murray—

Senator Minchin—Not that man.

Senator MURRAY—I do not mind switching for a day or two.

Senator SHERRY—I notice the chair of the Future Fund board is being paid more than we are.

Senator MURRAY—I think I could learn something on that side.

Senator Minchin—He has very big responsibilities.

Senator SHERRY—I am not arguing about the level of remuneration. It is not something that I would make an issue of in these circumstances.

Senator Minchin—Just to restate for the record: as you know, this is not a superannuation fund per se; it is an investment fund. It is to invest wisely the proceeds of surpluses and asset sales. It so happens that the government has decided, as a matter of policy, that the proceeds of this investment fund will be directed to meeting its obligations for its unfunded super. That is different—and materially different—to the role and responsibilities of the CSS/PSS.

Senator SHERRY—It is an investment fund for a superannuation fund.

Senator Minchin—Yes, but it is not a superannuation fund per se.

Senator SHERRY—We have had the argument before. It bears remarkable similarities.

Dr Watt—It is an investment fund to offset a superannuation liability.

Senator SHERRY—And you could achieve exactly the same thing with the moneys in the existing superannuation funds, in exactly the same way as every private sector company does it.

Dr Watt—But without the money and responsibilities.

Senator SHERRY—Mr Murray, have you given any consideration as to the level of remuneration of the two officers that a search is being carried out for at the moment?

Mr Murray—I have thought about it, but I do not want to pre-empt my discussions with the board about that and I do not want to jeopardise the search process by indicating a number that some might regard as too high and some might regard as too low. So I would prefer not to comment on it at this point. We have asked the search firm to assure candidates that the level of remuneration will be appropriate for the role.

Senator SHERRY—I understand. I will not pressure you on it on this occasion, but I suspect that on the next occasion—it will probably be in some sort of public format anyway—you or your representatives will address that issue. Ultimately, it would be publicly known, wouldn't it?

Mr Murray—I assume so.

Senator SHERRY—That would be my assumption.

Senator Minchin—Yes.

Senator MURRAY—I should signal that we will be very interested in the way in which the contract is structured, because the Senate as a whole has taken a great interest in the structure of executive remuneration—not so much the quantum but the mechanisms.

Mr Murray—Yes. It all has to be done under the Public Service Act.

Senator SHERRY—Have you given any consideration—this may be covered by the legislation, but I am not sure—to the actual superannuation entitlements of the employees themselves?

Mr Murray—No, but my starting point is the nine per cent requirement.

Senator SHERRY—It is not 15.4 per cent, which is the public sector accumulation rate?

Mr Murray—My experience is too recent. Nine per cent is better than 15.4 per cent if you are the employer.

Senator SHERRY—Yes, I know it is better for the employer. I would have thought, with your experience in the Commonwealth Bank defined benefit fund, that it would be better than nine per cent.

Mr Murray—Yes, it would take more than nine per cent for a fund like that to maintain its balance.

Senator SHERRY—Have you considered that view against the government's policy of 15.4 per cent? This is in the new accumulation fund. Have you considered the position of that?

Mr Murray—No, but I will take advice about the Public Service Act requirements. Those decisions predate my involvement with the fund.

Senator SHERRY—I was not sure whether this issue was included in the Future Fund legislation.

Mr Murray—No, it is simply a requirement to follow the Public Service Act.

Senator SHERRY—Have you given any consideration to the industrial arrangements within the Future Fund for the employees?

Mr Murray—No. That is something that I would like the general manager to deal with, for the same reason that I mentioned before. He has to take ownership of the people and the processes.

Senator SHERRY—I do not have any further questions. Thank you, Mr Murray.

CHAIR—Senator Murray, do you have any questions?

Senator MURRAY—For my part, Senator Wong and Senator Sherry have quite adequately covered the areas that I was interested in. Ms Doran, I just have one small housekeeping matter left. Archival responsibilities are different, as you know, in the public sector compared to the private sector. I think that in 30 years time the creation, the operation

and the way in which this is established and run will prove interesting to financial historians. Is Mr Murray's agency going to be properly advised on archival matters? It is not normally the sort of thing that Finance worries about too much, I would have thought.

Mr Murray—We have already started to look at those requirements.

Senator MURRAY—Excellent.

Mr Murray—We will follow the proper procedures. We had a photograph taken for the record at our first board meeting.

Senator MURRAY—You should make sure that you get the minister's photograph there is well. It is genuinely historic and quite an interesting exercise. I also think that, because it has a 40-year forward view, it is a quite fascinating thing and one should ensure that it is properly archived and recorded.

Senator Minchin—A wise point to make.

Senator MURRAY—Thank you.

Dr Watt—Finance is getting better at archival matters.

CHAIR—Dr Watt, I am sure you have a sense of history.

Dr Watt—I have a very strong sense of history. We can also find more of our records than we used to.

Senator MURRAY—I am, of course, interested in normal records too. The usual rule of thumb for the private sector does not apply in the public sector. You keep records of far greater extent than otherwise might be involved—the little matter of the Harradine motion and things like that.

Mr Murray—Yes.

CHAIR—Thank you.

Proceedings suspended from 3.42 pm to 4.01 pm

CHAIR—I call the committee to order. The committee is examining superannuation.

Senator SHERRY—I will go back to output 1.

CHAIR—Have we finished general questions?

Senator SHERRY—General questions, yes. I do not have much more to go on output 1, so I would not suggest that anyone leave at this time.

CHAIR—And Senator Evans will—

Senator SHERRY—Yes, Senator Evans is going to finish the questions he commenced.

CHAIR—Thank you.

Senator SHERRY—I want to follow up on an issue that we discussed on the last occasion: same-sex interdependent couples. I think you, Ms Doran, were awaiting a report on the implications of that for public sector superannuation funds. Have you received that report yet?

Ms Doran—I am sorry; I am not certain what report you are referring to.

Senator SHERRY—I think there was a consultants study into the implications of extending public sector benefits to same-sex and interdependent couples. We discussed it on a previous occasion. There was a consultants commission to examine the costs and implications of that. Senator Minchin and I had a reasonable exchange about it.

Ms Doran—I think the report you are referring to may be the long-term cost report produced by our consulting actuary, which is a regular update of the costs of the scheme. But there has been no specific—

Senator SHERRY—No, it was a specific report into the implications of extending the benefits of the PSS and CSS to interdependent and same-sex couples.

Ms Doran—There is no independent consultants report being undertaken on that issue. We have been working within the department on considering options for that particular policy issue and undertaking some costings of various options.

Senator SHERRY—That is not what I recall from the previous evidence—

Ms Doran—I apologise

Senator SHERRY—but I will refresh my mind when I have a look at the transcript later. Where is that costing that the department is working on up to? Is it completed yet?

Ms Doran—We are continuing to work on that issue.

Senator SHERRY—Is there an indicative date of when it will be concluded?

Senator Minchin—I am not in a position to indicate a timetable. It is a live issue and one that has been the subject of internal discussions. We are anxious to have an outcome, but I am not in a position to put a time line on that.

Senator SHERRY—I was just looking for an indicative date for the completion of the Department of Finance and Administration's analysis of the issue. There is work in progress, so there must be a point or an indication of when the work in progress will come to a conclusion.

Ms Campbell—We provide advice and then it is an iterative process where we do not have a conclusion date. We will provide advice to the minister and provide further advice on the matter as required.

Senator SHERRY—It seems to me that we have gone backwards from the discussion we had on this issue on the last occasion. It seemed to me that there was a clearer reporting time and process for it going to the minister. You are examining the cost implications of it if applied to the CSS/PSS.

Ms Campbell—Yes.

Senator SHERRY—That is work in progress?

Ms Campbell—Yes.

Senator SHERRY—Who is involved in doing that work in progress?

Ms Doran—It is within the department. It is internal work.

Senator SHERRY—I know that it is in the department—but who is doing it? Is it conducted under your purview, Ms Doran?

Ms Doran—It is being done in a branch within my section.

Senator SHERRY—Obviously that would require some actuarial assumptions and consulting. Who is doing that?

Ms Doran—Our actuarial consultants provide source numbers for that. We can work with those numbers under various options ourselves.

Senator SHERRY—Who are the actuarial consultants?

Ms Doran—Mercers Human Resource Consulting.

Senator SHERRY—I think that is the discussion we were having—that is, that the Mercers data and analysis that you were waiting to receive had not been received as at the last estimates.

Ms Doran—I think that might have been the long-term cost report that I was referring to.

Senator SHERRY—That is certainly not the impression I gained.

Ms Doran—The process, as has been said, for interdependency has been very much an iterative process. When we come up with new options, we may need to re-cost those options or reinvestigate the costings. While we have some data from our actuaries, it is very much an ongoing process.

Senator SHERRY—I can understand that there is iteration and an ongoing process. Where is Mercers at in terms of the costing of public sector super funds and applying the benefit to interdependent and same-sex couples?

Ms Doran—It has not been a precise assignment in that respect; rather, it has been an iterative process of us working with them. As we explore different options, we will seek their advice on those options and possible costings of those options.

Senator SHERRY—So these options are being examined? What are the options that are being examined by Mercers?

Dr Watt—I think the difficulty for us is that we are looking at options, and it is a bit hypothetical to be talking about them when they are no more than options.

Senator SHERRY—There is a significant issue of actuarially calculating the cost of applying the benefit to CSS/PSS—and it is mainly a reversionary benefit, as I understand—to same-sex and interdependent couples. I can understand there is an iterative process and you are examining options, but is the application option being examined?

Ms Doran—That is one of the options that is being examined, yes.

Senator SHERRY—Has work been completed by Mercers on that option?

Ms Doran—A cost has been provided on that option.

Senator SHERRY—Has that been provided to the minister?

Ms Doran—Yes, that costing has been provided.

Senator SHERRY—What was the cost?

Dr Watt—I do not think we can—

Senator SHERRY—Approximately. I am not going to hold you to the nearest dollar.

Dr Watt—We normally do not talk about the advice we provided to the minister in any specific terms, and I do not think we should on this occasion.

Senator SHERRY—Is this an ongoing consultancy with Mercers? Is there to be a specific fee for the service we have just been discussing—the analysis of the cost implication?

Ms Doran—There will be a specific fee for that service, but the nature of our consultancy with Mercers is an ongoing one.

Senator SHERRY—So, apparently, at this point in time, Minister, that cost has been provided to you? Is that correct?

Senator Minchin—That is correct.

Senator SHERRY—Minister, are you willing to meet the commitment that was outlined by the Prime Minister and Senator Coonan in respect of this matter?

Senator Minchin—The government remains committed to that objective; but the government has not resolved how best and most responsibly to meet it. That is still being discussed within the government.

Senator SHERRY—You have confirmed, Ms Doran, a costing of that option. What other costings of options have been requested of Mercers at this stage?

Ms Doran—That is probably the only option that we have formally sought a costing for from Mercers.

Senator SHERRY—I cannot understand how we can call or refer to it as ‘options’ when there has been only one proposition put to Mercers. There is nothing else—just that proposition.

Ms Doran—That is the only option that we formally sought a costing for. We have sought advice from them on other options and we have looked at other options internally, based on our own data.

Senator SHERRY—I understand that you would have looked at other options internally; but there is no other option that has been put to Mercers for costing as yet.

Ms Doran—That is correct.

Senator SHERRY—The Treasurer, in his budget speech, made the following statement:
There would be no tax on a superannuation pension.

That is a direct quote from the budget speech on budget night. Mr Gibbs, is that your understanding of the application to PSS/CSS members?

Mr Gibbs—We are still coming to grips with the impact of the proposals in the budget. But our understanding is that part of a pension in the PSS and all or the largest part of a CSS pension is effectively from an untaxed scheme and therefore recipients of pensions would, depending on how much the pension is, still be liable for some tax.

Senator SHERRY—So the statement that there would be no tax on a superannuation pension is wrong?

Mr Gibbs—I do not have the speech in front of me and I am unprepared to answer in the context in which was delivered.

Senator SHERRY—I will give it to you. I will hand it up.

Senator Minchin—Senator Sherry, it is pretty clear in the budget documents that the reference was to taxed funds and that untaxed funds would be considerably—

Senator SHERRY—It is certainly not clear in the speech.

Senator Minchin—Given that the Treasurer has got 20 minutes or half an hour, he cannot be completely comprehensive. But it was made very clear in the Treasurer's press conference in the lock-up and in subsequent and voluminous discussion of the subject that he was talking about taxed funds, and that untaxed funds would be treated differently. I do not think there has been any attempt to mislead on this.

Dr Watt—It was also very clear in the superannuation document that was released at the same time as the budget papers.

Senator SHERRY—I am referring to the speech that I am sure a lot of former and yet-to-be retired public servants would have been watching. Were there any phone calls to ComSuper on this matter?

Mr Bator—Yes. There were some phone calls from some pensioners about the measures. They were pretty enthusiastic about the measures.

Senator SHERRY—Did some of those phone calls relate to the declaration there would be no tax on a superannuation pension?

Mr Bator—I understand that most of the pensioners were aware that their pensions, in the main, came from an untaxed, unfunded scheme. To the extent that you purchase your own pension with your lump sum, it would be untaxed.

Senator SHERRY—But I am talking about existing retirees who are currently in receipt of a public sector pension.

Mr Bator—With any proposal you get phone calls from people who hear different things. I thought I heard the Treasurer refer to a taxed scheme and in my mind immediately thought, 'I come from an untaxed scheme.' You have the speech in front of you; I do not have it in front of me. But, by the end of hearing it, I think I was confident that I was not going to not pay any tax.

Senator SHERRY—But I am not asking you about your hearing; I am asking you about, as I understand it, the quite considerable number of phone calls about one of the issues that people sought clarification about.

Mr Bator—We will always get phone calls. Some people thought that the changes were effective on the night of the budget. As I said, people will hear different things and they will want clarification, and we have done our best to make sure that they understand that. We have spoken to pensioner groups, which were pretty clear about what type of pension they were getting. Possibly the ambiguity was around the 10 per cent—

Senator SHERRY—The rebate.

Mr Bator—and the rebate. When they understood how the 10 per cent worked, they were fairly supportive of that as well.

Senator SHERRY—It cuts their tax, doesn't it?

Mr Bator—Yes.

Senator SHERRY—The rebate effectively cuts their tax depending on the level of their pension entitlement.

Mr Bator—Yes.

Senator SHERRY—Do you have any understanding of what the average impact of the 10 per cent rebate would be on the income tax retired public servants pay?

Mr Bator—I think the average pension is \$50,000 or slightly under that, so 10 per cent of that is \$5,000 off their tax payable. There is \$8,000 tax on \$50,000, and I am not taking into account the fact that many of these people would be entitled to both SATO—senior Australian tax offset—and, in some cases, the low-income offset for those above age 65. However, we can imagine that most people would move from tax of around \$8,000 to tax of around \$3,000.

Senator SHERRY—So there is approximately a 10 per cent benefit in terms of net tax reduction?

Mr Bator—No, it is much more than that. If they are paying \$8,000 in tax now and they are going down to around \$3,000 of tax because they have a \$5,000 reduction, that is quite substantial.

Dr Watt—Senator, you are right if you mean 10 per cent of the pension.

Senator SHERRY—Yes. So an average 10 per cent of the pension benefit.

Mr Bator—Yes. So, if I am earning \$2,000 a fortnight as a pensioner at the moment, I am paying about \$597 tax, and I would go down to around \$396. That is a \$201 difference.

Senator SHERRY—So it is effectively an average 10 per cent increase in benefit to recipients?

Dr Watt—An average 10 per cent increase in pre-tax benefits.

Senator SHERRY—Yes. Do you accept that?

Mr Bator—Yes.

Senator SHERRY—Of course, that is not a cost being paid by the funds. That is a cost being paid by the income tax system, isn't it?

Mr Bator—Yes, by the tax system.

Senator SHERRY—Mr Gibbs, you mentioned earlier that there would be some direct implications on the fund itself in terms of future arrangements. Is that what you were referring to?

Mr Gibbs—No, I was referring to implications for our pensioners and for our members who might be retiring in the near future or who might have been planning to retire and may

now want to reconsider. I was talking more generally about all of the implications of the announcements, and we are trying to get our heads around those at the moment.

Senator SHERRY—But, in terms of a person who works through to 60 and the tax-free treatment of the lump sum, should they choose to take that, did you examine the implications in terms of the structure of the fund?

Mr Gibbs—No, we have not done that yet, but obviously we will. Although, for the PSS in particular—and that is where the lump sum is a strongly growing fund, with contributions far outweighing benefit payments in terms of cash flow—there would have to be a huge change in people leaving the fund to have any implication. There may be some implications for the CSS fund, but we are managing that already in terms of a cash flow negative fund, and we do not anticipate that this would make a huge difference to that.

Senator SHERRY—We have discussed this before and you did provide some response on notice. What is the average real rate of return of the funds over the last 10 years?

Mr Gibbs—The actual rate of return for the 10 years to 30 June 2005 was 8.8 per cent—or 8.7 per cent in one fund and 8.8 per cent in the other.

Senator SHERRY—Is that real rate of return?

Mr Gibbs—No, that is actual. You have to take off the average inflation rate over that period of time.

Senator SHERRY—Do you have the average real rate of return?

Mr Gibbs—No, I have not actually looked at the CPI over that period, but the CPI over that period probably would have been averaging around 2½. That would be about six in that period of time. I hasten to add that that has been, apart from a couple of years, a pretty good period. Our long-term objective is 4½ real. That is what our long-term objective is. We have beaten that objective over every period that you would like to name—one, three, five, seven and 10 years—but that is still our objective.

Senator SHERRY—I think it is legitimate to take a 10-year period. You have obviously done better, which is great. Have you had any cause to revise that over the future?

Mr Gibbs—We reduced it by half a per cent about two years ago. Our objective was five per cent real and we reduced it to 4½. We reduced it to 4½ because we also have an objective or a constraint, if you like, that we do not want to have more than one negative year in five. That does not mean, of course, that one in five is on average. You can have three in a row in one sense. But if you constrain yourself by saying, ‘We don’t want more than one in five,’ you cannot have an objective of five, six or seven per cent real. You just cannot get there without increasing your volatility and therefore your likelihood of a negative return. That is the objective we set as a superannuation fund. Other superannuation funds and other investment vehicles will have different constraints and therefore will be able to have different objectives.

Senator SHERRY—So, in terms of the last 10 years at least, there is an average real rate of return of slightly less than six?

Mr Gibbs—Yes. That has been the actual performance.

Senator SHERRY—Do you have any update on performance as of the last week?

Mr Gibbs—Yes. It was looking like a very good year and it is still okay—

Senator SHERRY—Slightly less than—

Mr Gibbs—Yes, slightly less good. I think the funds have actually slipped three per cent in the last week—from levels of about 15 per cent year-to-date as of the middle of last week to about 12 per cent. Mind you, that is only giving back what we made in the last two months, effectively. We were about 12 at the end of February. The correction is not dramatic and it is not and should not cause anybody and in particular our members any great concern.

Senator SHERRY—The market reached I think it was 5,000 about two months ago or whatever the date was and then it reached I think close to five-three. Is it causing any particular funds management issue within the fund about at some point in time at least switching out of equities or away from equities?

Mr Gibbs—No. We set our asset allocation over the long term. We are loath to try to time markets. If you try to time markets you will inevitably get it wrong and lose. Our analysis was that, whilst markets have been having a very good run, they were not particularly overvalued. They were certainly not cheap, but all of the indicators were that they were being supported by good profit levels in the companies in which we were investing. For example, the price-to-earnings ratios were not at historically high levels. So, as I said, there was not any reason for us to panic. The only thing with strongly performing markets is that it means we have to rebalance and manage the rebalancing quite well; otherwise, you will get your effective allocation to the equity markets getting out of tilt with your long-term strategic allocation. So we do rebalance on a frequent basis to make sure that our actual allocation is close to our long-term target.

CHAIR—Thank you, Mr Gibbs.

Senator SHERRY—I have some questions on supplementation. What is the percentage rate of budget supplementation for the financial year 2006-07, and what is the projected percentage rate of supplementation for the budget out years?

Dr Watt—What do you mean by supplementation?

Senator SHERRY—Isn't there a percentage rate?

Dr Watt—Do you mean indexation?

Senator SHERRY—Yes.

Dr Watt—There are some percentage rates. I will get my colleagues to comment on that. This applies to programs where an indexation factor is applied, and not all programs are indexed.

Senator SHERRY—And there are different rates, aren't there?

Dr Watt—We have a family of wage cost indexes, all of which consist of, from memory, a wage component and a CPI component. They vary in that mix to try to reasonably mirror the make-up of the agencies' expenditure. So, if you have something that is very heavily biased towards wages, you will get a different index than if it is very highly biased towards the purchase of goods and services. Mr Bowen, would you like to comment on indexation rates?

Senator SHERRY—There is a family of indexation rates.

Mr Bowen—Yes—but I did not catch the start of this conversation, I am sorry.

Senator SHERRY—There is a family—as it is commonly known—of indexation rates. Obviously, there are different rates that apply to different programs. Does Finance formally sign off on the indexation rates that would apply to different programs in different departments?

Mr Bowen—Yes, we do. Of course, it is dependent for most of them on the proportion of labour costs to other costs in the organisation.

Dr Watt—That is what I said.

Mr Bowen—I did not hear that either! We are just confirming the accuracy of what Dr Watt said.

Senator SHERRY—Is there a published document on this?

Mr Bowen—Not to my knowledge. I think the principles have been made public but the actual wage indices have not.

Senator SHERRY—Has there been any recent revision of the wage indices?

Mr Bowen—They are revised progressively. The answer would be: yes, they would be revised as parameters change.

Dr Watt—‘Updated’ would be a better word.

Mr Bowen—Yes.

Senator SHERRY—So they would be updated. Such as?

Mr Bowen—As the CPI changes, for example, the index—

Senator SHERRY—I am not thinking so much about the input—and the CPI obviously does change—but the definition.

Mr Bowen—Not the broad definition of the indices, no.

Senator SHERRY—When you calculate the indices, presumably you would calculate them in the lead-up to the budget preparation and then provide the data to the appropriate department for the appropriate program, would you?

Mr Bowen—They are updated periodically and provided to agencies, yes.

Senator SHERRY—And that is the figure they are required to use?

Mr Bowen—Yes.

Senator SHERRY—Could you take it on notice to provide me with the details of those?

Mr Bowen—That is not information that the government has chosen to put on the public record in the past.

Senator SHERRY—I know that; that is why I am asking. I did not think it was.

Dr Watt—We could take it on notice.

Mr Bowen—We can take it on notice, but I am flagging the position that has been taken to date.

Senator SHERRY—At least can you give a list of the different indices? What are they, and what is their application to various departments and programs? It does not seem to be unreasonable to me.

Mr Bowen—It is a question that we have been asked in the past, and—

Senator SHERRY—I cannot recall asking it.

Mr Bowen—I am not sure whether it was you who asked it, but we have been asked the question.

Dr Watt—Many people take an interest in these indices, actually. They are very interesting.

Senator SHERRY—Yes, I know that.

Mr Bowen—As I say, the government has not chosen to release the information by program.

Senator SHERRY—I am not sure your response is accurate. I am not suggesting you are misleading me, but could you check whether there has been any revision in the definitions in recent times?

Mr Bowen—There is one issue. The broad definition has not changed. As Dr Watt has already said, the wage cost indices are a combination of a wage component and the CPI. The wage component that has been used up until now is the safety net adjustment as determined by the Australian Industrial Relations Commission. The last determination was in May 2005. We have continued to use that as the adjustment factor for the indices, pending a decision by government on how we would calculate the indices in the future given that we will not have another safety net adjustment determination. The government has very recently decided that we will use the Fair Pay Commission determination to replace the safety net adjustment on the basis that it would be the best replacement we could get.

Senator SHERRY—You say ‘very recently’; how recently?

Mr Bowen—It is very, very recently. I think it was in the last week.

Senator SHERRY—Has there been a public announcement to that effect?

Mr Bowen—No, there has not, but—

Senator SHERRY—It is breaking news!

Mr Bowen—This is breaking news. It is being treated very much as a technical adjustment. We would say the methodology has not changed, but the source of data for one component has changed.

Senator SHERRY—The source of a component input has changed?

Mr Bowen—Yes, but not the methodology.

Senator CHRIS EVANS—What does that mean for measures that were in the budget? I asked a question about aged care, for instance: the COPO index. Senator Minchin dissembled on one occasion last year on this—

Senator Minchin—I did not dissemble; I gave you a very straight answer.

Senator CHRIS EVANS—Well, I will get the *Hansard* out for you—

Senator Minchin—We have got a copy of it; it was a very good answer, I thought.

Senator CHRIS EVANS—It was complete gobbledegook. We gave Senator Santoro a crack at it around budget time, and I think he is still looking up what the COPO index is. He read out the same gobbledegook. What does it mean for this year's budget?

Mr Bowen—I did say, but it may not have been clear—

Senator CHRIS EVANS—It was my fault; I was not listening closely.

Mr Bowen—That is okay. The budget has been indexed on the same basis as we have indexed in the past. We have used the latest available safety net adjustment figure as the component of the wage cost index.

Senator SHERRY—That is in this year's budget?

Mr Bowen—Yes.

Senator CHRIS EVANS—So the full COPO index is actually reflected in the budget?

Mr Bowen—It is in the budget. It is in the aged care—

Senator CHRIS EVANS—Why did they not say that on budget night? A journalist asked the Treasurer in the lockup and he did not tell him that.

Mr Bowen—I cannot—

Senator CHRIS EVANS—We were all searching for that information on budget night and no-one could or would tell us.

Mr Bowen—I cannot recall that.

Dr Watt—I am certain that the department of finance was not asked that question at the lockup, so perhaps the wrong people were asked.

Senator CHRIS EVANS—I was told the journalist asked—because I was not in that lockup.

Mr Bowen—I was in the lockup but I cannot recall that.

Senator CHRIS EVANS—Nothing turns on it.

Senator SHERRY—Is that indexation measure—we can call it the 'old base input figure'—also reflected in the forward estimates—

Mr Bowen—Yes, it is.

Senator SHERRY—for the next three years beyond this financial year?

Mr Bowen—Yes.

Senator SHERRY—There is this breaking news about the new input figure, which is to be the new minimum for the so-called Fair Pay Commission determinations. Just before I get to that, what was the figure that was input into the budget for this year, 2005-06, for example?

Mr Bowen—I cannot recall what the safety net adjustment was for May last year—

Senator Minchin—June 2005.

Mr Bowen—But whatever that figure was as a proportion of average weekly earnings is the figure that went into the index.

Senator SHERRY—If the new figure that is to be input turns out to be lower, will that mean an adjustment of the forward estimates to reflect that?

Mr Bowen—First of all—

Dr Watt—Or higher.

Senator SHERRY—Or higher, for that matter.

Mr Bowen—Yes, because that is a continuation of the existing arrangements, where the figure can and has gone up and down.

Senator SHERRY—If the decision of the Fair Pay Commission came part-way through a financial year, when would you carry out the adjustment?

Mr Bowen—Typically we would carry that out before the next budget update. It would definitely be in the next published update.

Senator SHERRY—And would that flow through into the forward estimates?

Mr Bowen—Yes.

Dr Watt—Senator, nothing has changed in terms of the mechanical arrangements or the replacement of one estimate with another. The source will be the decision of the Fair Pay Commission rather than the AIRC.

Senator SHERRY—Thanks for that. What is the current rate of the efficiency dividend?

Dr Watt—One and a quarter per cent.

Senator SHERRY—Is that across all agencies or is Defence still exempt from that?

Dr Watt—Defence does pay an efficiency dividend. It is now paying an efficiency dividend as a result of the decision taken in last year's budget. It is being phased in and only applies to—I think these are the words—'non-operational, non-military components of Defence activities'. There was an increase in what we attributed to be non-operational and non-military this year. It was a small increase.

Senator SHERRY—What was the figure?

Dr Watt—It is 1¼ per cent. The matured dividend is 1¼ per cent but I am not aware of the actual rate of the defence phase-in at the moment. We can find out that for you.

Senator SHERRY—Could you take that on notice. Do you know the phase-in period for the non-operational expenses?

Mr Bowen—We will check that.

Senator SHERRY—And is that the only exception to the 1.4 per cent?

Dr Watt—One and a quarter per cent.

Senator SHERRY—Sorry, 1.25 per cent.

Dr Watt—No. The ABC and the SBS do not pay the efficiency dividend, because they have triennial funding arrangements. CSIRO pay it only on their administrative component

under their triennial funding arrangement. There may be one or two other small exceptions, but they are the substantial ones.

Senator SHERRY—Perhaps you could take on notice where there are exceptions—if there are any—and what the natures of the exceptions are.

Dr Watt—Yes.

Senator SHERRY—When you are discussing expenditure proposals with departments—program expenditure, trends et cetera—is there a standard formula that you use for identifying staff and related expenditures?

Mr Bowen—For identifying—

Senator SHERRY—In terms of staffing costings—‘Will it increase by X amount over this budget year and the forward estimates?’ Do you use anything?

Mr Bowen—We do not have a standard formula. There will be differing costs.

Dr Watt—When you are talking about staffing costs, are you talking about the way in which we index them?

Senator SHERRY—Yes.

Mr Bowen—It comes back to the proportion of staff costs to non-staff costs. There is a range of indices as part of the suite or family that has been talked about.

Senator SHERRY—I prefer ‘family’. The term ‘suite’ is—

Mr Bowen—You may have 60 per cent labour costs, 40 per cent other. You would apply an index that had that sort of proportion.

Senator SHERRY—Right. With this index, are there significant differences across departments or across programs within departments?

Mr Bowen—There are differences, yes.

Senator SHERRY—Is the bulk of the public sector on one index?

Mr Bowen—I would have to check on that. Given that the Commonwealth public sector is fairly heavily staff based in its departmental expenditure and given that most departments are in that category, I suspect that there would be one index that is more commonly used than others, yes.

Senator SHERRY—Can you take on notice what the index is and where the exceptions are?

Mr Bowen—We will take on notice the proportions, yes.

Senator SHERRY—That index obviously includes the costs of superannuation.

Mr Bowen—Yes, it does.

Senator SHERRY—How do you factor staff pay increases into that index?

Mr Bowen—Under longstanding arrangements, the responsibility for staff pay increases lies with individual agencies. They are not supplemented directly for those pay rises, but they do have their funding indexed by the wage cost indices.

Senator SHERRY—So if their increase in pay is above that index, they have to find it in some way?

Mr Bowen—Yes, that is the requirement.

Senator SHERRY—I have one other matter: the paper purchase contract for the department. Do we have someone who can—

Dr Watt—For the Department of Finance and Administration?

Senator SHERRY—Yes.

Dr Watt—Yes, we can do that one. It is just a question of exactly what you are going to ask—once you ask your question then we will work out who is the relevant officer.

Senator SHERRY—Where is your paper coming from? That is basically it. Where is it being sourced from?

Mr Hutson—We have an agreement with a company that provides us with stationery supplies. They have a range of paper options available from the supplier. I am advised the majority of the paper used by the department is Australian paper.

Senator SHERRY—Do you have any idea of the exception?

Mr Hutson—No, I am afraid I do not.

Dr Watt—Sitting here right now, no, but I think we can probably get the answer relatively quickly.

Senator SHERRY—Okay, you can take it on notice: the source of the paper, the proportion that is Australian, the proportion that is not Australian and, for that which is not Australian, which country or countries it is coming from and the reasons for that.

Mr Hutson—Okay.

Senator CHRIS EVANS—My questions in outcome 1 only relate to the OEA.

Dr Watt—Could I clarify: is it the Office of Evaluation and Audit or is it the single Indigenous budget? Sometimes people roll the two together.

Senator CHRIS EVANS—The Office of Evaluation and Audit. I want to ask about the OEA's work, and thank you for the answers to questions I put on notice. First of all, I want to ask about your evaluation report on the family violence prevention program. Has that been completed?

Mr Willis—Yes, it has.

Senator CHRIS EVANS—Has it been presented to the minister?

Mr Willis—It has been presented to the minister.

Senator CHRIS EVANS—When did you finish the work?

Mr Willis—I think the report was presented on 9 December 2005.

Senator CHRIS EVANS—When did you commence that? You only commenced in 2005-06, didn't you?

Mr Willis—Are you referring to the AGD audit or another one?

Ms Campbell—There are two family violence audits and evaluations under way or recently completed.

Senator CHRIS EVANS—I was asking about the evaluation because I know you are not allowed to show me the audit.

Mr Willis—When I referred to 9 December that was the family violence prevention legal services program in AGD.

Senator CHRIS EVANS—I was going to ask you about that as well, so if you are ready to talk about that you can tell me about that first. That is the legal services in A-G's. That was an audit you did of that, wasn't it?

Mr Willis—Yes, that was an audit.

Senator CHRIS EVANS—When did you do that?

Mr Willis—That was provided to the minister on 9 December.

Senator CHRIS EVANS—Is the minister your minister or is the minister the A-G?

Mr Willis—It was provided to the parliamentary secretary for on-forwarding to the Attorney-General.

Senator CHRIS EVANS—So it does not actually go through the minister for finance?

Mr Willis—In this case the Minister for Finance and Administration has delegated that responsibility to the parliamentary secretary.

Senator CHRIS EVANS—This is Senator Minchin's parl sec?

Mr Willis—Yes.

Senator CHRIS EVANS—So: Finance parl sec, who then forwards it on to the relevant minister, which is the A-G.

Mr Willis—That is right.

Senator CHRIS EVANS—Do they give you feedback on that? What is the process, following your audit?

Mr Willis—Actually, we did get feedback. We got a response from AGD's. We were also invited over to make a presentation to their audit committee.

Senator CHRIS EVANS—Is it the normal process that you always get feedback? Are they required to agree or not agree to your findings?

Mr Willis—They are required to respond, but we usually make contact with them three months after delivery of the report. In this case, the minister responded, thanked us for the report and said he had referred it to the department for implementation of the recommendations.

Senator CHRIS EVANS—So you have recommendations that you made as part of the audit. They can agree to them or tell you no, or come back to you and say, 'Can we negotiate this?' Is that how it works?

Mr Willis—Part of the process is that we usually try to agree on the recommendations with them during the finalisation of the report.

Senator CHRIS EVANS—So you work very much like the ANAO in that regard.

Mr Willis—It is very similar.

Senator CHRIS EVANS—So you had agreed recommendations and the minister, the A-G, wrote to you, saying that they were going to implement them.

Mr Willis—That is right.

Senator CHRIS EVANS—Can you tell me, then, about the evaluation of the family violence prevention program?

Mr Willis—Yes. There are two FaCSIA programs.

Senator CHRIS EVANS—There are two?

Mr Willis—Yes. They are split up. They come under the heading of family violence programs but there is the Family Violence Partnership Program and then there is the Family Violence Regional Activities Program.

Senator CHRIS EVANS—You are the first one who has been able to make any sense of that in days. Congratulations! I have asked a number of people about it. It was originally called the partnership program and it seemed to have morphed into the prevention program. I thought I was going mad. There is actually now the prevention program and two subprograms.

Mr Willis—That is right.

Senator CHRIS EVANS—Thank you. You are doing a lot better than PM&C were doing. So there is the partnership program and the regional—

Mr Willis—The Family Violence Regional Activities Program.

Senator CHRIS EVANS—Are they separate budget items?

Mr Willis—I could not answer that. I think they may be.

Senator CHRIS EVANS—You have done an evaluation of both?

Mr Willis—We have not done it yet. We are in the process of doing it. We have had our first advisory committee meeting and we are in the process of doing our preliminary survey.

Senator CHRIS EVANS—As I am an avid reader of your program of work, I thought it was to be completed in the first quarter of 2006.

Mr Willis—No. Our program is aimed to commence in 2005-06, as we have the resources and are able to do it. This current evaluation is due to be completed in December 2006.

Senator CHRIS EVANS—When did you commence it?

Mr Willis—It was commenced in April, I think.

Senator CHRIS EVANS—April just past?

Mr Willis—Yes.

Mr ADAMS—Is six months your normal sort of time frame for an evaluation?

Mr Willis—For an evaluation it is, yes. It is six to nine months, actually.

Senator CHRIS EVANS—So we will not see that until the end of the year. You said you were talking to the advisory committee. Can you outline for me the process you use in evaluation?

Mr Willis—Yes. We usually have an advisory committee that is made up of representatives from the agency being evaluated. It is chaired by either the branch manager or the director of Evaluation and Audit. We usually try to get an expert in the field. Obviously, with the spread of activities in Indigenous affairs it is difficult to be a health expert, if we are looking at a health program, or, as in this case, a family violence expert. We usually identify someone with that expertise to sit on the advisory committee as well.

Senator CHRIS EVANS—Someone out of the department or someone out of the general community?

Mr Willis—It is totally independent. We like to get someone who is not biased from a departmental viewpoint. We usually meet three, sometimes four, times. The initial meeting is to confirm, following examination of the program, the terms of reference and the methodology we intend to employ. During that meeting we rely heavily on the assistance of that independent person.

Senator CHRIS EVANS—So you set up your advisory committee: what do you do after that?

Mr Willis—Then we do the preliminary survey.

Senator CHRIS EVANS—Whom do you survey?

Mr Willis—The preliminary survey usually identifies some of the areas to be visited and we visit those so that we can make sure we have got the right track to examine the further sample that we might take.

Senator CHRIS EVANS—Do you mean in the places where the program is delivered?

Mr Willis—Yes.

Senator CHRIS EVANS—Do you survey the users, the customers?

Mr Willis—We usually try to go out and survey the recipients. In this case it would be very difficult to interview people who have suffered the abuse—

Senator CHRIS EVANS—Why would it be difficult?

Mr Willis—It is usually fairly sensitive. During an earlier evaluation we went into some of the jails and interviewed some of the prisoners. That was not an easy task to do. So within the realms of what we are able to do and what is culturally suitable to do, we will try to do.

Senator CHRIS EVANS—So you visit places and conduct your survey: what then happens?

Mr Willis—It depends on the different programs. In this instance I am not too sure of the next step but I would imagine it would be going around and seeing the program delivery through the service providers, interviewing staff in some of the crisis centres and so on.

Senator CHRIS EVANS—Do you measure the outcomes against set objectives that have been established for the program?

Mr Willis—That is the intention, yes.

Senator CHRIS EVANS—Are there always objectives for the program other than general—

Mr Willis—There are usually objectives for the programs—

Senator CHRIS EVANS—They are usually pretty general though, aren't they—reduce family violence—

Mr Willis—Sometimes they are general. At other times they are quite specific. It just depends on the precise program.

Senator CHRIS EVANS—It seems to me that it is very hard for you to measure if one of the objectives is to promote better family relationships or reduce family violence or achieve world peace. Those things are pretty hard to measure. It is not that they are not admirable objectives but, in terms of going out and asking whether those objectives have worked, it is not an easy process.

Mr Willis—It is not so much the objectives; it is usually the data available to measure them. That is the difficult part, and with some of these programs, despite all good intentions, the data are not available.

Senator CHRIS EVANS—What happens next?

Mr Willis—Usually we discuss with the stakeholders involved and identify what issues need to be followed through and so on.

Senator CHRIS EVANS—What does that mean? Do you mean the issues that need to be followed through?

Mr Willis—Some of the objectives might not be being met. There might be systemic issues in the delivery of the program. We identify what needs to be followed through, and that is where we come out with the recommendations.

Senator CHRIS EVANS—So you identify the issues and include them in your report.

Mr Willis—Yes.

Senator CHRIS EVANS—Then you draft recommendations and discuss those with the agency.

Mr Willis—Yes. We usually try to go through procedural fairness to make sure that there are no surprises for anyone when we report.

Senator CHRIS EVANS—So you complete your evaluation report. What do you do then?

Mr Willis—We usually have another meeting of the advisory committee to make sure that we have got everything right. That is at the finalisation of the draft report to see if there are issues that fall out that we need to follow through to complete our report.

Senator CHRIS EVANS—Then what happens?

Mr Willis—We provide the initial draft to the agency concerned—in this case it will be FaCSIA. We usually give them about a month—and I think it is a month in the protocol—to respond formally to us.

Senator CHRIS EVANS—And then?

Mr Willis—Then we finalise the report and issue it to the minister.

Senator CHRIS EVANS—And what happens after it is issued to the minister?

Mr Willis—It is similar to the process that I just confirmed with the AGD report. In this case our parliamentary secretary would provide it to the Minister for Indigenous Affairs through FaCSIA.

Senator CHRIS EVANS—I thought there was supposed to be a different process for evaluations compared with audits.

Mr Willis—Slightly, in the sense that we would expect that the evaluation reports would be published and possibly tabled in the House, depending on what the parliamentary secretary wants to do.

Senator CHRIS EVANS—But they are not being tabled, are they?

Mr Willis—I would not say that. We have not produced an evaluation report under the new process.

Senator CHRIS EVANS—According to your website, you have not published one since August 2004. And I have no record or finding of you tabling one in the parliament. That might be my research skills letting me down.

Mr Willis—I believe there may have been one done in 2005, but I have to check that. The last one—

Senator CHRIS EVANS—The Senate Table Office has been unable to find it. That could be a failure on their part. But there is nothing on your website. Wouldn't you put them up on your website?

Mr Willis—Yes, as far as I know they should be up on the website.

Senator CHRIS EVANS—Well, that I do know about. I got a print-out of it today and it is not there.

Mr Willis—I am not sure. I think the last one was—

Senator CHRIS EVANS—The last one I have is the August 2004 evaluation of Aboriginal Hostels.

Mr Willis—That was definitely the last one.

Senator CHRIS EVANS—You have not done an evaluation since 2004?

Mr Willis—We have done evaluations since; they have not been published yet. They have not been finalised. We currently have one in DEST; that is with the department at the moment for a response.

Senator CHRIS EVANS—That is on Indigenous education and strategic initiatives away from base?

Mr Willis—Yes, that is the one.

Senator CHRIS EVANS—Wasn't that completed in December 2005?

Mr Willis—No. The fieldwork may have been completed by then, but the finalisation of the report and submission to the department—

Senator CHRIS EVANS—Was that delayed?

Mr Willis—Yes, I presume it—

Senator CHRIS EVANS—You and I seem to be disagreeing about dates, but I am going off your program, so—

Mr Willis—It was commenced in 2005 but, with the gestation period and the presentation of the report and so on, it has not been published yet.

Senator CHRIS EVANS—But you say the evaluation is expected to be completed in the December 2005 quarter.

Mr Willis—The actual evaluation may have been completed but the reporting process has not been finalised.

Senator CHRIS EVANS—But six months on it is still not public and still not on your website. It seems to me the transparency seems a bit clouded.

Mr Willis—It has not been finalised with the department. Until we get their response it would be inappropriate to publish the report.

Senator CHRIS EVANS—Am I guaranteed the report will be published?

Mr Willis—That is a matter for the parliamentary secretary in accordance with the ATSLA act.

Senator CHRIS EVANS—So it is not necessarily the case that it will be published?

Mr Willis—The act says that the Minister for Finance and Administration, in this case delegating to the parliamentary secretary, ‘may publish’.

Senator CHRIS EVANS—That is not what your evaluation and audit work program document tells me. It says:

Given the generally broader scope and wider public interest in evaluations the Minister has determined evaluations will be tabled in Parliament.

Mr Willis—It was the previous parliamentary secretary that agreed to that.

Senator CHRIS EVANS—So your documentation is not current. Has there been a change of policy?

Mr Willis—No, there has not been a change of policy. The previous parliamentary secretary had that policy. It has not been affirmed yet, because we have not presented another evaluation report to the current parliamentary secretary to decide whether to publish.

Senator CHRIS EVANS—Is it government policy or not? Parliamentary secretaries come and go—so what? I thought the whole basis of your organisation was that audits are secret OEA business and evaluations are public documents to provide transparency about the success or otherwise of programs. But (1) there has not been one on your website since 2004, (2) your documents are said to be tabled in parliament and I cannot find one, and (3) you are now telling me that the policy is not necessarily in accordance with the public documents you produce.

Dr Watt—I do not think that is quite what Mr Willis said, Senator. I think he said that government legislation says ‘may publish’. The previous parliamentary secretary took the view that they would be published. We have not completed an audit since late 2004, but we are working on a couple. While it is always a matter for any parliamentary secretary to affirm or not affirm their predecessor’s views, it is quite likely that the current parliamentary secretary would continue the views of his predecessor.

Senator CHRIS EVANS—Has the minister changed?

Dr Watt—The parliamentary secretary has changed.

Senator CHRIS EVANS—Your documents refer to the minister, so I presume he has got the authority.

Dr Watt—It is ‘the minister’ in the sense of the collective term which often includes parliamentary secretaries, even though they are not strictly ministers.

Senator CHRIS EVANS—That is clear! Your documents say ‘the minister’. They also say that they will be tabled in parliament. Can you explain to me why they do not seem to have been tabled in parliament?

Mr Willis—There is an expectation that they will be tabled in parliament.

Senator CHRIS EVANS—Yes, I have that expectation.

Mr Willis—When one is finalised, there is certainly an expectation from our office that that would be the case.

Senator CHRIS EVANS—Can you tell me which ones have been tabled in parliament in recent years?

Mr Willis—Whatever is on our website. I know that the last one was the Aboriginal Hostels Limited one.

Senator CHRIS EVANS—Was that tabled in parliament?

Mr Willis—It was published. I could not guarantee that it was tabled.

Senator CHRIS EVANS—There are two issues here. Your website makes it clear that the last one you published was the Aboriginal Hostels one. I concede that. I am bit concerned that it was the last one, but put that to one side for the moment. With all due respect to my researchers and to the clerks of the Senate, we can find no evidence at this stage of reports having been tabled in the parliament. That may be wrong. I am not asserting it with any great confidence, other than to say that we cannot find one. Do you know that they have been tabled?

Ms Campbell—The legislation has changed recently. The new legislation provides that they ‘may’ be tabled in parliament. The previous legislation did not provide that they would be tabled in parliament—they were published.

Senator CHRIS EVANS—When was the legislative change made?

Mr Willis—It was in April 2005.

Senator CHRIS EVANS—It seems then that we are right to say that there have not been any tabled in parliament.

Dr Watt—There has been a lack of opportunity.

Senator CHRIS EVANS—You have had the opportunity, but it just does not seem to be completed yet.

Dr Watt—There has been a lack of opportunity for current reports.

Senator CHRIS EVANS—You allegedly finished one in December 2005 and it is now May 2006.

Ms Campbell—I think the work program had an expectation that it would be completed in December 2005, and it is yet to be completed.

Senator CHRIS EVANS—That is where I got my expectations from—the documents which you kindly provided to me. So we have established that none have been tabled in parliament but that, under the new legislation, they can be. However, they can only be tabled if the parliamentary secretary decides they can be, and as yet we do not know whether the parliamentary secretary has decided whether or not they can be.

Dr Watt—I think the words the officers have used is that there would be an ‘expectation that they would be’.

Senator CHRIS EVANS—But you cannot guarantee that.

Dr Watt—Obviously, we cannot commit the parliamentary secretary in his absence, no—or in his presence, either.

Senator CHRIS EVANS—So it is fair to say that, at the moment, we do not know whether they will be tabled in parliament or whether they will be made public. Both are options open to decision makers and you cannot assure me of either.

Ms Campbell—There is an expectation that they will be tabled and published.

Senator CHRIS EVANS—I had an expectation that they would be published and tabled too, but I have been sorely disappointed.

Ms Campbell—Once they are completed, there is an expectation that they will be tabled.

Senator CHRIS EVANS—I am just testing, because the rhetoric does not seem to be matched by the record at the moment. I am not critical of the officers—I am just trying to nail it down. I think, ‘I’ll read this stuff, and I’ll go to the Table Office and find them all,’ but then there are none there. I check the records, and there are none there. And now you are telling me that the policy that they will be made public is also an open question.

Dr Watt—I am not quite sure that we are saying that. We are saying that the act says ‘may’. The previous parliamentary secretary took the view that they would be. I am sure the current parliamentary secretary will think kindly of his predecessor’s interpretation, but I cannot guarantee that.

Senator CHRIS EVANS— I accept that that is your interpretation of it. That is on the record and that is fine. I hope he reads it and feels committed by his secretary. To be clear, what evaluations have been completed and not published?

Mr Willis—The DEST IESIP one is the only one that has been completed and not published.

Senator CHRIS EVANS—The Indigenous Education Strategic Initiatives Program?

Mr Willis—It has been completed in the sense that it has been referred to the department for a response.

Senator CHRIS EVANS—With agreed recommendations? Are we at that stage or are we at the stage of them considering your recommendations?

Mr Willis—Considering the recommendations.

Senator CHRIS EVANS—So you have not even got agreed recommendations with the department yet?

Mr Willis—Not at this stage.

Senator CHRIS EVANS—What else have you got that has not been completed?

Mr Willis—In the evaluations?

Senator CHRIS EVANS—Yes.

Mr Willis—There are a few under way. They are—

Senator CHRIS EVANS—Obviously we have the family violence prevention programs, which we have discussed.

Mr Willis—Yes. There is an evaluation of Indigenous Business Australia.

Senator CHRIS EVANS—What stage is that at?

Mr Willis—That has not long commenced. We have had an advisory committee meeting of that. We are doing preliminary studies of that as well.

Senator CHRIS EVANS—So we are not going to see that in the next six months? Will it be next year?

Mr Willis—It will be towards the end of this calendar year I think.

Senator CHRIS EVANS—Then we will not see it—‘we’ meaning the general public—this year, will we?

Mr Willis—I would not expect to see it before the end of this calendar year.

Ms Campbell—It is unlikely that it would be ready for tabling and publishing before the end of this year.

Senator CHRIS EVANS—So we are likely to see that in 2007. When did we think we were likely to see the family violence prevention programs evaluation?

Mr Willis—I would hope that it will be finished by the end of December this year.

Senator CHRIS EVANS—So, again, we would not see it until the second quarter of 2007?

Mr Willis—No, it could well be at the end of January 2007.

Senator CHRIS EVANS—Do not create expectations for me that you cannot deliver on—you have learned the error of that! Do you want to reconsider that? I will hold you to it.

Mr Willis—Will you? All right. You had better make it the first quarter of 2007.

Senator CHRIS EVANS—I thought you were being courageous. What else do you have on the go?

Mr Willis—Most of the others are audits. I am not sure of any other—

Senator CHRIS EVANS—I think you gave me a list of the audits, but it is not really much value to me knowing, because I will never see what they find out, will I? It may apply to the evaluations as well, but at least the audit, I suppose, gives me a sense of the ground you are covering. What happens with an audit if you are not happy with it, you do not think it has been run properly and the department is a bit recalcitrant about accepting your advice and recommendations?

Mr Willis—Are you talking about the audit not being performed properly or—

Senator CHRIS EVANS—No—I mean if you complete an audit or evaluation and you recommend that they cut costs on the program or reassess their objectives or whatever it is, they do not share that view and you come to an impasse. Your role as auditors is obviously to do what you think is proper practice. What is the appeal mechanism? How is it resolved?

Mr Willis—We usually go through an exit discussion process. At that time we firm up findings. The aim of the exit process is to see that we are accurate and factual in what we have found. They may dispute that, but we will confirm the facts however we can do that and we will report what we find.

Senator CHRIS EVANS—So you may report to the minister with recommendations that are not agreed?

Mr Willis—That is quite possible.

Senator CHRIS EVANS—Out of the audits you will make recommendations, not just findings?

Mr Willis—We definitely make recommendations. We have an obligation to the agency being reviewed that we will reflect their response within that report. So, if they disagree, it will be there in black and white.

Senator CHRIS EVANS—What happens if the ANAO is coming to cast its eye over areas that you have already perhaps covered or where you might have dealt with a subset? Do you make your information available to the ANAO?

Mr Willis—The ANAO audits us as well and they rely on our work. We usually liaise with them in the development of our program. They might say to us, ‘We’re going to look at that health program,’ and we will defer it because there is no sense in both of us doing—

Senator CHRIS EVANS—I accept that. But, for instance, if you have done a couple of family programs inside FaCSIA and they come in to look at all of FaCSIA’s programs and spending under 8.2.3 and part of that is one of yours, will they use your work? Is it made available to them?

Mr Willis—Yes, it is.

Senator CHRIS EVANS—It is auditing you, but it is the availability of your information and your work. That would be made available to them?

Mr Willis—They rely on our work, yes. They might bite off a different part of the program to look at. Depending on our coverage, they might say to us, ‘We accept what you’ve done, but we’re going to look at this particular aspect,’ and they will concentrate on that.

Senator CHRIS EVANS—Can you update me on a couple of the audits that I have on my list, starting with the Indigenous coordination centres. What is the timing on that?

Mr Willis—We are hoping to commence that—it is a 2006-07 audit—in November.

Senator CHRIS EVANS—How long do the audits run?

Mr Willis—I expect that that one would be completed within three months.

Senator CHRIS EVANS—Would it be fair to say that the audits are slightly shorter tasks?

Mr Willis—Usually they are, yes. They are performance audits, and they are looking at the processes and systems employed by the department and the delivery of those programs.

Senator CHRIS EVANS—Why have you chosen to only audit something like the ICCs, rather than do an evaluation? How do you make those decisions?

Mr Willis—We try to do an audit first, because that confirms and provides assurance to the agency and to us that the systems and processes are in place and are working. Further down the track, we will have a more full-bodied evaluation into it.

Senator CHRIS EVANS—Something like the ICCs is a fairly new initiative but, quite frankly, the decision about whether or not they are working is pretty critical to the government. They have invested into the new whole-of-government approach. They are a central component about whether the thing works basically. I think everyone has the same opinion and accepts that. The audit will not tell them what they really need to know, will it? It is just about the effectiveness of the arrangements.

Mr Willis—With the ICCs, in our planning process it was decided that we would hold off to give them time to settle in and work effectively or just to be working.

Senator CHRIS EVANS—Or failing, for that matter.

Mr Willis—Or failing to work, yes. Our intention is to now do that audit in November this year. We will also feed into OIPC. I understand they are conducting evaluations further down the track as well. Our audit will be provided through OIPC and FaCSIA. There is an expectation from us that they will then take note of that and do their own evaluation.

Senator CHRIS EVANS—Is it fair to say that the audits generally have a narrower focus than the evaluations?

Mr Willis—Yes, they do. The evaluations are usually looking at the outcomes and whether the programs are achieving what the government was intending to implement, whereas the audits are performance related and more aimed at efficiency and effectiveness of the delivery of services.

Senator CHRIS EVANS—I do not really want to concentrate on the ICCs, but I have used them as the example. You have talked about the OIPC doing their own evaluation, which raises the question: in your evaluation reports, do you coordinate with the department? Do they do their own evaluations of programs or do they rely on you or do you tick-tack about?

Obviously, it would be considered a waste of resources if, say, OIPC had done a major evaluation of ICCs in March and you had done one in April, although you might get different results. Is that a judgment call you make?

Mr Willis—It is, very much so, and it is part of our risk assessment process. We have contact with each of the areas and not just with OIPC and FaCSIA. We have contact with each of the internal audit areas in those nine government departments that we service. We make sure that we liaise so that there is no duplication and we are not falling over one another. They can rely on our work and we can rely on theirs. We get access to their reports involving Indigenous programs, as well.

Senator CHRIS EVANS—Do you respond to red light signals on programs, in terms of evaluations?

Mr Willis—Yes, I think we do.

Senator CHRIS EVANS—I know you have your work program but, say, there is a bit of a national outcry about the Primary Health Care Access Program, would that warrant you bring forward your work on it or putting it up to top of the list?

Mr Willis—Yes, it does, the same as if we might defer another element of the program if we bring forward something that is more topical.

Senator CHRIS EVANS—Is that a judgment inside your office?

Mr Willis—Part of it is. There is also provision in the act that the Minister for Finance and Administration, or in this case the parliamentary secretary, might ask us to look at something specific—an accountability audit or a referral to the office to complete.

Senator CHRIS EVANS—So, if they have concerns regarding financial probity of something, they might ask you to have a look at the program?

Mr Willis—Yes, or some topical issue in the press could be referred to us. As long as it refers to Indigenous specific funding, Commonwealth money, we can have a look at it.

Senator CHRIS EVANS—What about if it is a joint initiative? What happens when so many of these things are part state funded and part Commonwealth funded? Is there a reciprocal agreement? Do they allow you into the state funding areas or do you have to quarantine your work?

Mr Willis—We have to quarantine our work. The act only enables us to look at Commonwealth funded—

Senator CHRIS EVANS—So it is not an issue of the states agreeing; it is actually your act that restricts you.

Mr Willis—The act restricts us, and therefore we do not look at anything involved with COAG or the like.

Senator CHRIS EVANS—So that is why you have not gone to any assessment of the COAG trials, for instance?

Mr Willis—That is right. It is prohibited.

Senator CHRIS EVANS—That is going to be increasingly difficult for you, isn't it, in the sense that so much that occurs now is coordinated and jointly funded and the whole-of-government approach envisages linking much more directly with state departments and other bodies?

Mr Willis—Yes, that is one view. On the other side of it, when we are looking at the different government agencies, we usually do that by linking through the ICCs and we look at the ICC's handling of it. But we cannot look at state departments.

Senator CHRIS EVANS—I have just been looking at the family violence stuff in recent days. The Commonwealth puts in a million and the Northern Territory puts in \$500,000 and they run the same program. How do you wander out to the program and look at the Commonwealth dollars if they have thrown them into a bucket?

Mr Willis—That is where it is difficult. We cannot look at that. We can only look at the Commonwealth input to it.

Senator CHRIS EVANS—What does that mean? If there is a joint program that, for all intents and purposes, the Commonwealth and the state have put money into and is then administered as one, does that mean that you cannot look at the program and the administration of those funds?

Mr Batho—In the sense that you are suggesting that the money is conflated, a reasonable person and indeed any reasonable interpretation would say that the auditor—be he Commonwealth or state—could look at that funding in any case because they could reasonably infer from the example you gave, Senator, that 66 per cent of the money is Commonwealth. In any case, we would also be looking at the governance issues that control these organisations. We can look at that and we can look at their financial probity. The findings that we make in these respects can be equally applied by the state when considering their own funding.

Senator CHRIS EVANS—You do not feel that there is a restriction on your capacity to deal with those sorts of arrangements?

Mr Batho—I do not think it is a restriction per se. We cannot make any statement about how the Northern Territory funding is spent, but we can certainly make statements about how we believe the Commonwealth funding to be spent, and that would inform the states on what—

Senator CHRIS EVANS—I was more concerned about whether had the impact of restricting your capacity to assess the Commonwealth—

Mr Batho—I do not think it would restrict our capacity. We would just argue, 'If you have mixed the money, that is your problem; you will have to let us look at the entirety of your funding so that we can make an assessment about Commonwealth funding.'

Senator CHRIS EVANS—I am reassured. Does that mean that you will also make those audits available to state authorities if they are in that sort of situation?

Mr Batho—Not necessarily, because they are restricted to the Commonwealth. We may ask the minister to write to the Northern Territory or the state department to advise them that we had found certain problems in organisations, without making the report available per se.

Senator CHRIS EVANS—Has the audit for the Indigenous Education Strategic Initiatives Program commenced?

Mr Willis—That is the evaluation.

Senator CHRIS EVANS—I had it down as an audit.

Mr Willis—Sorry. No, it has not commenced.

Mr Batho—And neither has the next one, which is the national report.

Senator CHRIS EVANS—Let me deal with one at a time. I thought that was supposed to commence this year.

Mr Batho—Yes, it is, but I think part of our problem is that staffing restrictions have meant that our ambitions are tempered by our staffing resources. We have been actively recruiting through the year, but while we have been active we have not always been successful in recruiting.

Ms Campbell—I am not sure ‘restrictions’ is the best word. We have been unable to recruit suitably qualified staff to fill those positions, and we continue to seek those staff.

Senator CHRIS EVANS—So the work program is slipping as a result of those issues?

Ms Campbell—It is. There some minor slippage, but we continue to try and address that by recruiting staff. However, it is a very tight market, and I think the Auditor-General faces similar challenges in finding suitably qualified staff.

Senator CHRIS EVANS—What about the audit of the Family Violence Prevention Legal Services program?

Mr Willis—That is the one that was completed and provided in December.

Senator CHRIS EVANS—That is right. It has gone off to the A-G’s.

Mr Willis—Yes.

Senator CHRIS EVANS—And they have ticked off on the recommendations.

Mr Willis—Yes.

Senator CHRIS EVANS—What about the Primary Health Care Access Program?

Mr Batho—That is one of the ones that has not been undertaken yet.

Senator CHRIS EVANS—That has slipped?

Mr Willis—That has slipped at this stage.

Senator CHRIS EVANS—Is it likely to start any time soon?

Mr Willis—It is more than likely that it will start in 2006-07.

Senator CHRIS EVANS—Is that an audit?

Mr Willis—Yes.

Senator CHRIS EVANS—With some of the language around it sounded like it was an evaluation, but it is actually only an audit. What about the National Aboriginal and Torres Strait Islander Health Performance Framework?

Mr Batho—That particular audit has been deferred at the request of the secretary of the department, who says that the main activity in this particular field will not commence until later in the calendar year. We have undertaken some preliminary work, we have examined the dimensions of this program—the scope of it—and we have drafted terms of reference but, in view of the secretary's request, it has been deferred until after they actually start to implement these performance indicators.

Senator CHRIS EVANS—So it is not that the program has not started; it is that they have not established the performance indicators.

Mr Batho—I think they have established the performance indicators. I would not like to make any comments about the department of health. But they are saying that they are having a meeting later this year at which all this will be discussed. I think it is a huge project. They have asked us to defer it, and that is what we have done. We will probably look at starting it in November.

Senator CHRIS EVANS—What about the audit of CDEP organisations?

Mr Batho—The fieldwork for that particular audit is under way at present. I estimate that the fieldwork is about 75 per cent complete. After that there are a few more organisations to visit and then there will be a report.

Senator CHRIS EVANS—So that has gone back from March this year to 15 May?

Mr Batho—Yes. It is an extensive program, and the issue is that we have to visit a large number of organisations to get some robust information that we can provide to the department about the program.

Senator CHRIS EVANS—You could certainly do with some robust information about CDEP performance, rather than the rhetoric that seems to surround it. But it has slipped from March to May. When are you now hopeful of completing it?

Mr Batho—We are hopeful that it will be completed by the end of the financial year, but there is many a slip 'twixt cup and lip. One would anticipate at least early by—

Senator CHRIS EVANS—You are on the slippery slide on that already by the looks of it.

Mr Batho—That is why we write in pencil.

Senator MURRAY—Never trust an auditor who writes in pencil! Green or red pens only, yes?

Senator CHRIS EVANS—According to this, you have only undertaken one evaluation that has been completed but not ticked off on between August 2004 and the present. Does that indicate that there is much more emphasis on audits than evaluations?

Mr Willis—There is a lot more emphasis on audits than evaluations. Evaluations are less than one-third of our office capacity.

Senator CHRIS EVANS—On my figures you have completed 13 in nine years.

Mr Willis—Evaluations?

Senator CHRIS EVANS—My source is your website.

Mr Willis—That is probably about right.

Senator CHRIS EVANS—I am sure your website is accurate. Thirteen in nine years seems to reflect there is not a great deal of focus on the evaluation as compared to the audit. Could someone explain to meet the philosophical underpinning of that?

Mr Batho—In the sense, Senator, that evaluations are very much longitudinal studies, a good evaluation would take something up to a year to conduct and undertake, and you are looking back over a longer period of time. To our way of thinking, evaluations are exercises that answer the question: what difference has all this made? Over a period of time, programs have been implemented; they have been developed and they are running. These programs had to achieve certain outcomes, to make changes in society, and therefore what we are asking in the evaluation is: what difference did the programs actually make. So the evaluations are essentially much longer; they take a longer time to undertake. It is a very optimistic thing to say they take nine months. In my experience they can take a year, maybe a year and a half in reality, if you want to get a good evaluation that actually means something and is sufficiently robust to withstand public scrutiny.

The performance audits, on the other hand, are designed to give departments and governments an understanding of how their program is heading at the time. We are looking at the efficient and effective implementation of the program and whether that implementation will actually achieve the outputs. And the outputs are the means by which the outcomes are achieved in society.

Senator CHRIS EVANS—I accept that that is a logical explanation. I guess this is not your responsibility, but I would have thought the one thing that we lack in Indigenous affairs in this country and Commonwealth funding of it is proper evaluation of what difference these programs have made, whether we should still be pouring millions of dollars into them and whether, if they fail, we ought to be directing our energies. I would have thought your work on evaluations is highly critical to the whole thing. This is a commentary, and not a political point, but evaluation of these programs seems to me to be what is sorely missing from the public debate and government response.

So has there been any consideration given to changing the balance? I know you have a problem about resourcing in the sense of recruiting staff. Has there been any consideration of changing the balance or increasing the evaluation work done by the unit?

Mr Willis—You have confirmed the resourcing issue—that is a real issue for us. It is not always easy to find appropriately skilled people to do the work. There is also a shortage of consultants out there who are able to do that sort of work.

Senator CHRIS EVANS—I was going to say there is no shortage of consultants—but, yes, not to do that sort of work.

Mr Willis—There is no shortage of consultants, but specifically to do—

Senator CHRIS EVANS—Every second person you meet is a consultant! If masks a multitude of sins these days.

Dr Watt—There has always been a shortage of good consultants.

Senator CHRIS EVANS—There is a shortage of lowly paid ones. They all charge a motser.

Mr Willis—Whilst it is one of our roles, each of the departments do evaluations of their programs as well. There are also lapsing program evaluations that they do. So it is not a shortage of evaluations, it is just targeting it. We get cries already from the agencies that we are working in that they are overaudited. Between the ANAO, their own internal audit and us as another tier of evaluation and audit, it is a difficult environment.

Senator CHRIS EVANS—They are certainly not over-evaluated, I can tell you. Most of them do not have benchmarks or any proper assessment of what they are trying to achieve, which I think is a bloody disgrace. Thank you for that. It has been very helpful.

Senator SHERRY—I have a question with respect to privatisation.

Dr Watt—Before we start, Senator Sherry, Mr Bowen has something to come back on from earlier this morning.

Mr Bowen—Senator Sherry, I think you raise a question about the AFFA \$10 million in decisions taken but not yet announced.

Senator SHERRY—Yes.

Mr Bowen—I said, looking at Budget Paper No. 2, I thought it probably came from the line item on page 62. That is correct.

Senator SHERRY—Thank you. I have some questions about privatisations. Senator Minchin, this morning I raised with you the issue of the Snowy Mountains in the context of Senator Heffernan. Were you able to ascertain whether he spoke against the resolution in the Senate?

Senator Minchin—That is a rather odd question for estimates, but it is all a matter for the public record anyway. The record shows that Senator Heffernan voted against the ALP amendment to the government motion. There were three further votes which were all, as we call in the Senate, mickey votes in that they resulted in the government and the opposition voting together. Senator Heffernan did not vote on those three divisions and he did not speak in the debate.

I should add that, from a government point of view, we were not encouraging government members to speak on the matter because the government's position was clear. Indeed, it was similar to the opposition's position. Again, I do not want to say anything that would be derogatory of Senator Heffernan in that he has made, as is proper in his position as a coalition senator, clear to me and others in the government privately his personal concerns regarding aspects of this government decision. I do not want to reflect upon his integrity—

Senator SHERRY—He has also been making it quite public since we passed the resolution in the Senate to privatise the Commonwealth share. I know he suggested that the Future Fund should buy up to 25 per cent to ensure it remained in Australian hands. Do you have that under consideration at the moment?

Senator Minchin—No, we do not. Indeed, I put out a statement to day in response to the legal advice that Senator Brown has circulated to the effect that which asserted that parliamentary approval of the sale required legislation and not merely resolutions. In refuting that, I restated the government's clear position that we will be proceeding with the sale of our

minority 13 per cent shareholding. The government is certainly not contemplating the complete opposite—that is, to buy any further shares. No, we are not.

Senator SHERRY—On the sale proceeds, have you made any public statement as to leanings and the likelihood of what could happen to those sale proceeds in terms of the Future Fund?

Senator Minchin—No, I have not made any comment on that.

Senator SHERRY—I just want to come to a legal issue. I have not seen your press release, but quoted in the media are a number of what seem to be authoritative legal people—Victorian SC Brian Walters and constitutional law expert Professor George Williams—who argue it is not proper on the basis of resolution. It is claimed that Professor Williams and the Clerk of the Senate, Mr Evans, say that ‘a strong argument could be made that the government did not achieve the required parliamentary approval’. Whose views have you sought on this matter?

Senator Minchin—It would not surprise you that the government sought its own legal advice prior to proceeding to seek the requisite parliamentary approval. That advice was clear in reassuring the government that, in the terms of section 7 of the Snowy Hydro Corporatisation Act, it was perfectly proper, for the government to satisfy that act and its requirements with regard to the government disposing of its shareholding, that the approval of the parliament be sought by way of resolution to be put to both houses of parliament. That is the course of action which, as you know, we followed, and both houses of parliament did vote quite clearly and overwhelmingly in favour of those resolutions. So we reject the opinions from Mr Walters and Professor Williams.

Senator SHERRY—What about—

Senator Minchin—I read the same article you did, which did not quote Mr Evans. I have not seen any quotes of Mr Evans.

Senator SHERRY—There is a quote: ‘a strong argument could be made’. I do not know what the context of it is, but there are quotation marks around that comment. Have you or your office had any contact with Professor Williams or the Clerk of the Senate, Mr Evans, on this matter?

Senator Minchin—I have certainly not contacted them. I am not aware of any of those gentlemen contacting us. I have read the press reports and I have seen Senator Brown’s statement on the matter, but I have had no direct contact with any of them.

Senator SHERRY—Are you able to disclose whom your legal advice has come from?

Mr Yarra—From AGS.

Senator SHERRY—From A-G’s?

Dr Watt—The Australian Government Solicitor.

Senator Minchin—That is different from A-G’s.

Senator SHERRY—Do you know if they consulted with Professor Williams and/or the Clerk of the Senate, Mr Evans?

Senator Minchin—Can I just say—as I have said before—Mr Evans is not a lawyer. He is not entitled to be proffering legal opinions.

Senator SHERRY—I am not suggesting he is a lawyer.

Senator Minchin—So, no, we would not seek legal advice from Mr Evans.

Senator SHERRY—I am just asking about this specific case.

Senator Minchin—Professor Williams, as you know—and I know Professor Williams personally—is prone to provide public comment on almost any issue in the public arena. No, we would not go and seek Professor Williams's view. I had never heard of Mr Walters. He must be known to Senator Brown. But we did the right thing, which is to seek from our professional legal advisers—the Australian Government Solicitor—their legal advice to the government on the question of what was required in order for the parliament to indicate its approval of the disposal of the shares. That advice was clear in indicating the resolution of parliament was appropriate. So I have no doubts about the legality of what has occurred. Indeed, the outcome is that clear majorities in both chambers have voted in favour of the resolution that the sale proceed.

Senator SHERRY—I want to go to some issues relating to Telstra—

Senator MURRAY—Before you do, I have a quick question on the water issue and the foreign ownership issue raised by Senator Heffernan. Under the FIRB rules, wouldn't the Treasurer be able to prevent any foreign takeover of that asset once it was in private hands anyway?

Senator Minchin—As with any other proposal, it would have to be considered under the terms of the Foreign Takeovers Act and the Foreign Investment Review Board procedures. That is right.

Senator MURRAY—That article specifically mentions Thames Water, I think, as a potential acquirer. They would have to apply to the Foreign Investment Review Board, and, in turn, the Treasurer is able to make a ruling as well.

Senator Minchin—That is quite correct.

Senator SHERRY—In respect of Telstra, there has been an appointment of 11 banks to the Institutional Selling Services Panel for the Telstra sale and, as we discussed at the time, that is on top of the appointment of ABN AMRO, Rothschild, Goldman Sachs, JBWere and UBS Australia as Project Management Joint Global Coordinators. Caliburn Partnership has been appointed as acting business adviser to the government—and there is a long list of other institutions involved. How much has been spent on T3 advisers and departmental costs to date in this financial year?

Dr Watt—The first point to make, Senator, is that nothing has been spent on that 11-bank panel. That panel is there to be drawn on, provided the sale proceeds, if our joint global coordinators advise and the government decides to draw on the services of that panel. It is a panel to be drawn on just like any other procurement panel. There is no money involved yet in drawing on those services.

Senator SHERRY—Has any money being paid to any firm in respect of the privatisations to date? Are consultants in that as well?

Dr Watt—Yes.

Mr Lewis—Payments have been made to a number of advisers and suppliers in relation to T3, in relation to both the scoping study and, since then, the sale.

Senator SHERRY—Do you have those details?

Mr Lewis—We could certainly supply you details. We have some rough order of magnitude—

Senator SHERRY—Rough orders of magnitude now and then provide the details on notice.

Mr Lewis—Yes.

Mr Heazlett—To the end of April about \$11 million in total had been spent on both the scoping study and sale preparations.

Senator SHERRY—Was Macquarie Bank included in the original institutional selling group?

Mr Lewis—No, Senator.

Senator SHERRY—Why not? Were they part of it?

Mr Lewis—We do not discuss who applied for panel positions. We have announced the appointments to the panel but I prefer not to discuss who actually applied for positions on the panel.

Senator SHERRY—Why do you prefer not to?

Mr Lewis—Because it goes to the commercial interests of the parties concerned.

Senator SHERRY—Were they disqualified for any reason?

Mr Lewis—I would prefer not to discuss that issue.

Senator SHERRY—If they were disqualified, where that leads to we will see. Were they disqualified?

Mr Lewis—No.

Senator SHERRY—At this point in time what is the projected conclusion of this process—2006 or 07?

Dr Watt—We are still working towards a fully marketed retail offer, effectively a sale, in October-November 2006.

Senator SHERRY—If that happens, any further payments—and I am sure there would be some—would be concluded in this financial year?

Mr Lewis—In the 2006-07 financial year?

Senator SHERRY—Yes.

Mr Lewis—It could well be that that is the case. The government has not decided, first of all, to proceed with the sale and, secondly, what its structure might be. In previous offers,

sometimes we have had instalment receipts, which may involve a second collection process in a future financial year. If we decided to do that, then we would incur costs at that point in time, but the government has not decided, first of all, to sell and, if so, what the structure of that sale would be.

Dr Watt—Should the government proceed to sale, you are correct in the main sense in that the bulk of the payments would be made in 2006-07.

Senator SHERRY—This financial year. We have Telstra, we have Snowy, we have Medibank Private for this financial year, possibly.

Senator Minchin—This current financial year.

Senator SHERRY—Yes. Is it possible to sell these three entities in the one financial year, Senator Minchin?

Senator Minchin—Yes, it is. The Snowy sale, as you know, is being led by the New South Wales government. You will have seen advertising already for the preregistration. While we are assisting New South Wales and providing advice, it is not a major imposition on the Commonwealth in terms of process. For Telstra, if it is to be sold all or in part, our target timing is October-November. That would then leave Medibank Private as the remaining entity which we have indicated it is government policy we would like to offer. We are planning on that—

Senator SHERRY—That is this financial year.

Senator Minchin—Yes. We have indicated our desire to effect a sale in the 2006-07 financial year. That would not take place until the conclusion of the Telstra sale, and I have publicly indicated that the method of sale and the timing of sale of Medibank Private will be influenced by our ultimate position on Telstra. But we are confident that we can manage both a Telstra sale and a Medibank Private sale in 2006-07.

Senator SHERRY—Do we know yet the proposed sale timetable for Snowy?

Dr Watt—Yes, we do. The sale will be completed in July, from memory.

Senator Minchin—Yes, looking at a listing in July.

Senator SHERRY—This year?

Senator Minchin—Yes.

Senator SHERRY—Has there been consideration about Snowy, Telstra and Medibank Private having any implications in terms of crowding of the financial markets, availability of advisers, experts et cetera?

Dr Watt—We have had advice on that. Clearly, they have an impact on each other in terms of their potential to draw funds out of the capital market. More importantly, we have not had a tradition of a Commonwealth government running two public floats at the same time. It does cause problems for us in terms of sequencing. It causes problems in terms of the choice that it imposes on potential participants who may happily lean to one rather than the other. So we do take that into account. Our concern in relation to Snowy has been to make sure that it is done as early as possible in the financial year and not immediately in front of a possible Telstra sale.

Senator SHERRY—How much has been spent, if any, on advisers to date in respect to Medibank Private?

Dr Watt—We will give you that figure. I do not think we have it here. We as yet do not have any advisers on board for Medibank Private. We have advertised for business, legal and process advisers, from memory. There has been nothing spent on those. We have, however, spent a small amount of money on a scoping study refresh. We could find that amount of money for you, I am sure.

Senator SHERRY—I note the estimated sale cost in 2006-07 is \$20.3 million—that is a fair amount of money. Are there any staff internally engaged on the process yet?

Dr Watt—We have a small team working on Medibank Private inside the department. Mr Yarra can tell you how many bodies are involved.

Mr Yarra—I think there are about three FTEs.

Senator SHERRY—And their costs are included in the \$20.3 million?

Mr Yarra—Yes.

Senator SHERRY—Is one of the issues being taken into account the different levels of market share that Medibank Private holds in each state?

Mr Yarra—Certainly in the process of examining the question of the future ownership of Medibank—the scoping study and the refresh—market share, market structure and market conditions are all taken into account in analysing the questions put before them and in providing advice to government.

Senator SHERRY—On the face of it there would appear to be some issues of competition and market dominance.

Mr Yarra—That depends on the scenario that evolves in the sale process. It depends on whether it is a trade sale or a float. We have different market competition outcomes depending on the sale methodology and who the players might be.

Senator SHERRY—Do you need to consult with the ACCC on this issue?

Mr Yarra—We certainly do in the context of a trade sale. The different scenarios mean more or less consultation with the ACCC depending on who the players are who might be bidding.

Senator SHERRY—So presumably part of this is that, if the sale were to go ahead and depending on the form, a potential buyer or buyers would not then want to have to go to the ACCC having bought it and justify their position—they would want reassurance ahead of a sale?

Mr Yarra—In a trade sale process you would expect them to have that sorted before they submit their tenders. We would want that comfort from them before they submit tenders.

Senator SHERRY—Would there be a formal ruling from the ACCC on this?

Mr Yarra—I think that remains open as to the nature of the questions that might be presented to the ACCC.

Senator Minchin—Presumably it would be similar in some ways to the recent Toll Patrick discussions that occurred with the ACCC prior to Toll effecting its takeover.

Senator SHERRY—I have some questions in respect to a plan to move office locations and some questions in respect to the Tuggeranong Office Park sinking fund.

Dr Watt—We can do both of those.

Senator SHERRY—I will come to the Tuggeranong Office Park sinking fund.

Dr Watt—TOPS for short. It is easier.

Senator SHERRY—There is a shortfall. I am not sure what is sinking. In the budget paper on page 82 there is \$102.661 million to be paid to meet a shortfall. What is the basis of the shortfall?

Mr Yarra—The arrangement with TOP is that a sinking fund is established and the rental paid by the tenant of the building is paid into the sinking fund. All costs of owning and operating the building are paid out of the sinking fund. At the end of the day there is either a surplus or a shortfall in the sinking fund that must be paid out or serviced at the point at which the TOP transaction winds up.

Senator SHERRY—Is it anticipated that a payment of this size will be needed?

Mr Yarra—It was a long time ago. I do not know the answer to that question. But the shortfall of \$102 million-odd is offset by the value of the building. The building is currently valued at more than \$102 million. The arrangement is that the Commonwealth can purchase the shares in TOP Pty Ltd for \$100 and then take the assets of TOP Pty Ltd including the building, which is worth more than the shortfall in the sinking fund. I do not know what was originally expected at the time the transaction was done.

Mr Yarra—The transaction was in 1994, I think.

Dr Watt—It was a long time before Mr Yarra's time.

Senator CHRIS EVANS—So we have an asset worth more than \$102 million in current market rates. Who is renting it?

Mr Yarra—FaCSIA—the Department of Families, Community Services and Indigenous Affairs.

Senator SHERRY—They are paying rental?

Mr Yarra—Yes.

Senator SHERRY—What is the impact on TOP of the \$102 million that is being paid?

Mr Yarra—TOP Pty Ltd is the legal entity that owns the property. The investors in TOP have an indemnity from the Commonwealth, which is reflected in, I think, our statement of risks. The owners of TOP are indemnified for any shortfall in the sinking fund.

Senator SHERRY—So you pay the \$102-odd million to the company TOP Pty Ltd—

Mr Yarra—To the sinking fund. I think the sinking fund is an asset of TOP Pty Ltd.

Senator SHERRY—And you are saying you could buy it back for \$100?

Mr Yarra—That was the original transaction at the time it was done. That is set out in the documents. It is, in a sense, a financing transaction.

Senator SHERRY—So you could choose to buy it back for \$100 if the Commonwealth wished to?

Mr Yarra—Correct.

Senator SHERRY—And it would therefore acquire an asset worth \$102 million plus?

Mr Yarra—Yes, worth more than \$102 million.

Senator SHERRY—Do you have a current valuation, approximately?

Mr Yarra—The number in my head, which we would like to confirm, is \$127 million. That is, I think, the last number that I heard.

Senator SHERRY—Several departments have recently moved or plan to move office locations. For example, the Department of Human Services have recently moved and the Department of Agriculture, Fisheries and Forestry apparently plan to move into Civic this year. Are you aware of any departments—and, if so, which—that are moving in this new financial year?

Dr Watt—We would not normally be aware of those moves, other than through departments approaching us in relation to funding issues, such as budget issues, if there were any that were relevant. In the case of the move of Human Services that you mentioned, that was hardly a move, in one sense. There was a little ‘flea bite’ set up in one building and as they grew they moved into another, which was always more or less expected. We are aware that AFFA is planning to move out of the Edmund Barton Building. I read about that in the newspapers, basically. We are also aware that the APSC is also planning to move out of the Edmund Barton Building. Again, I read that in the newspapers—nothing more than that.

As for other particular moves in this financial year, no. But there is a round robin of moves in the Barton area as the Department of the Prime Minister and Cabinet moves into its new building. Ultimately, the building that they currently occupy, McLachlan Offices, will be refurbished for the Attorney-General’s Department.

Senator SHERRY—Other than identifying possible moves and costs, would that be done in each individual portfolio budget statement?

Dr Watt—It should be. And if there was any budget funding involved it would be in the budget measures document.

Senator SHERRY—For each portfolio?

Dr Watt—Yes.

Senator SHERRY—So there is no aggregated data on the shifts?

Dr Watt—No. If the portfolio were funding the move out of its own resources, it would obviously not be there as a measure but it would come out of existing running costs.

Senator SHERRY—Okay.

Dr Watt—In the case of all the moves I have mentioned, in no respect is any Commonwealth office building involved. As you are also aware, we are refurbishing Anzac

Park West for the AFP, but that move will not take place this year either. That is a Commonwealth office building. If you want a number on the Medibank scoping study update or refresh, it was a total of \$145,000.

Senator SHERRY—Thank you. Chair, that is it. I finished a little earlier than I anticipated.

Dr Watt—Mr Chairman, can I send the officers for outcome 2 home?

CHAIR—Yes, you can. We will commence with AEC at around 6.30 pm.

Proceedings suspended from 6.07 pm to 6.32 pm

Australian Electoral Commission

CHAIR—The committee welcomes Senator Colbeck, Parliamentary Secretary to the Minister for Finance and Administration. Good evening.

Senator Colbeck—Thank you, Chair.

CHAIR—I welcome the Electoral Commissioner, Mr Campbell, and officers of the Australian Electoral Commission. The committee will commence its examination of the Australian Electoral Commission with general questions.

Senator CARR—Mr Campbell, could I take you to the comments you made at previous inquiries—into, for instance, the Electoral and Referendum Amendment (Electoral Integrity and Other Measures) Bill—where you were indicating that you thought the commission would be able to ensure that there would be no problem getting young people to enrol before the next election. You were confident that that would be the position, that there would not be people left off the roll and that money would be made available for different campaigns to ensure that that actually happened. How much money was in the budget to allow that to happen?

Mr Campbell—Before I ask Mr Pickering to answer your question—he will go through the details for you—I would just like to correct the record. I do not think I have ever said ‘no problem’. I do not think I have actually used those terms and I have not said that there will not be people left off the roll. I point out to you that the reason why we will go to the detail that Mr Pickering will take you through is because we know we have an issue. We have an issue irrespective of when the rolls close and we have an issue that not everybody wants to enrol anyway. So I just want to be clear: I do not think I have ever used those exact terms.

Senator CARR—You are quite correct to correct me on that matter. I was simply pointing out that you took the view and you consistently argued that the new laws the government was proposing—as I understood you were saying—would not see thousands of Australians left off the electoral roll or incorrectly enrolled. You were arguing that this was because the AEC was going to run effective public awareness campaigns. Would that be a more accurate description of what you were saying?

Mr Campbell—Particularly the last comment was quite fair.

Senator CARR—Could you explain to me precisely how much money is in the budget that would allow you to do this?

Mr Campbell—As I said, I will ask Mr Pickering to do that.

Mr Pickering—The total amount of money that has been allocated for this bill is \$31 million, of which just over \$18 million has been allocated for advertising and public awareness.

Senator CARR—Is that new money?

Mr Pickering—The \$31 million is comprised of \$26.1 million relating to new money, as we might describe it, and \$4.9 million which is money that was allocated to the AEC budget earlier but was not utilised.

Senator CARR—It was an underspend, was it?

Mr Pickering—No, it was not an underspend; it was allocated for legislation that was not passed.

Mr Campbell—It comes from earlier JCEM reports, and those recommendations did not pass so the money was still there. That has been added to the \$26.1 million to add to \$31 million over four years.

Senator CARR—That is what you were referring to when you spoke to the Senate committee inquiring into the electoral referendum bill and said that there would be ‘substantial money here for us between now and the 2000 election to inform the electorate of those changes’. Is that what you were referring to?

Mr Campbell—Yes.

Senator CARR—Where would I find that moneys in the budget? Where can I locate that money—in terms of the appropriations? Could you show me what page that is on?

Dr Watt—No. It was a measure in the Mid-Year Economic and Fiscal Outlook 2005-06, which was released in December last year. It is on page 149.

Senator FAULKNER—That is deliberately tricky, Dr Watt. I do not know whether I have that document in front of me. That means I probably will not be able to follow the evidence, which means I will just be quiet.

Senator CARR—Can we have a copy of that?

Dr Watt—It is also in the portfolio budget statement, I hate to say. I have brought you back to life—page 99 of the PBS.

Senator CARR—Mr Campbell, what is your plan to spend that money?

Mr Campbell—There are two elements that we will be concentrating on in that public awareness. One will be the proposed new changes to proof of identity for enrolment and re-enrolment, and the other is the close of rolls. I will take a moment here to explain the timing. If we assume that the next general election will be a House of Representatives election together with a half Senate, which is probably not an unreasonable assumption, the earliest that election can be held is 4 August 2007.

Senator CARR—What is the latest?

Mr Campbell—I think it is 19 January 2008—whatever that Saturday is. I think we can assume that it will be held between August and December. The proof of identity takes effect eight months after the passage of the bill. The bill, as you both know, is currently in the

Senate. Working back from those timetables we have to work through how we campaign and how we get the people at the appropriate time. We engaged some time ago a media advising company, a marketing advising company and a public relations company. It is coincidental that it is the same week as these hearings but those companies are currently undertaking, together with the research company, focus groups in both metropolitan and rural Australia this week and next week. That is the beginning of the research.

The reason I go through that detail is to say that we do not have our final plans and our fine grain of detail worked through. We are waiting for the research. We already know quite a lot of facts. For example, we know that in the close of rolls in the recent elections the greatest number of transactions have come from inner-city divisions. For example, the three in Sydney—Sydney, Grayndler and Wentworth—are far greater than any other division in New South Wales and the same for Melbourne and Melbourne Ports in Victoria. We are looking and working our way through quite deliberately and quite carefully what sort of program of awareness we will run. We do not think it will be the sort of thing we might have done in previous elections where we did a big campaign in the last three or four days around the announcement of the election and the issue of writs. We think we will be doing something that builds up quite a time before that.

Another possibility is that we might write to all school leavers at about the time they are leaving school—if we can get the data and that can all be done with the state authorities—in the October-November period this year. There are quite a number of things that we have on our plate but I really cannot commit yet to what the fine detail will be. Of course, we will be having subsequent hearings before a lot of it starts to roll out and I will be quite happy to take you through it then.

Senator FAULKNER—You have a budget for an information campaign, haven't you?

Mr Campbell—Yes.

Senator FAULKNER—You can give us that figure. Can that figure be provided?

Mr Campbell—That is \$18 million over four years.

Senator FAULKNER—What is the breakdown? Kindly, Dr Watt has pointed us to the PBS, and he is right—I have made a certain discovery on page 99. What I have not been able to discover is a financial year breakdown of that \$18 million. I assume it is in MYEFO. That would be a really courageous assumption, wouldn't it?

Dr Watt—I would not call it a courageous assumption. I think the MYEFO reflects the same numbers, from memory.

Senator FAULKNER—It is not in MYEFO, is it?

Dr Watt—I do not think there is a breakdown of the public relations campaign per se as opposed to the measure as a whole.

Mr Campbell—I can give it to you. I should correct myself: it is actually over five years because there was some money that we have been provided with this year that we do not think we will spend because the legislation is not yet passed so we will have to carry that over to next year. I will give you the yearly figures, including 2005-06.

Senator FAULKNER—Yes, because you have said you have already commenced dipping into that bucket of money.

Mr Campbell—We have with some of that, but some of it will be carried over as well. I will round them. It is \$1.5 million in 2005-6; \$6.1 million in 2006-07; \$5.6 million in 2007-08; \$1.2 million in 2008-09; and \$3.8 million in 2009-10.

Senator FAULKNER—It is always risky to make assumptions but I assume the reason for the drop-off in 2008-09 and 2009-10 is the electoral cycle?

Mr Campbell—That is right.

Senator FAULKNER—Have you engaged a public relations consultant?

Mr Campbell—We engaged two companies some little time ago after the 2004 election. They are BMF Advertising, and the public relations company is Haystac Public Affairs.

Senator FAULKNER—Who are the principals of BMF Advertising?

Mr Campbell—I have met them but I do not carry their names in my head. I will have to take that on notice.

Senator FAULKNER—Do you know the principals for Haystac?

Mr Campbell—No, it is the same thing.

Senator FAULKNER—I think I know who they are. They were engaged by a tender process after the last election. Is that right?

Mr Campbell—That is right.

Senator FAULKNER—What sort of tender? Was it a full public tender?

Mr Campbell—I am advised that Haystac's contract had an option for extension, so that was taken up. For BMF there was an open tender process and they won that contract through that process. They were not the previous contractor.

Senator FAULKNER—For how long has Haystac been contracted to the department?

Mr Campbell—I think it was just for the period of the 2004 election. BMF are new to the commission.

Senator FAULKNER—Did the 2004 election have some sort of options clause?

Mr Campbell—There was an option for extension.

Senator FAULKNER—For how long has Haystac's contract been extended?

Mr Campbell—I do not have that information. Unfortunately, the branch head who is responsible for that has had to urgently take several days leave from work this week for family reasons. We can take that on notice and get it to you very quickly.

Senator FAULKNER—I am not critical of people taking leave for family reasons, as you would appreciate. I am not critical of the officer at all, but is there not someone who can help us? I think you would appreciate, Mr Campbell, that these are pretty standard sorts of questions for an estimates committee.

Mr Campbell—I am sorry, we just do not have the detail with us of the length of contract, but we can get it to you very quickly.

Senator FAULKNER—Righto. What about the value of the contracts?

Mr Campbell—I think the values of both of the contracts would not be set out. There would probably be some elements of the contract that relate to decisions about what will be done.

Senator FAULKNER—It will not be an open-ended thing. Tell us what you can.

Mr Campbell—Rather than speculate, I would like to refresh my memory of the contract. We will come back to you very quickly. I cannot give you the value. My guess is that the value of the contract would have limits and regions to it but would not have a specific, final, determined dollar value.

Senator FAULKNER—Are you in a similar situation with BMF?

Mr Campbell—Yes.

Senator FAULKNER—Does no-one there know for how long they have been engaged? I am going to go through and try to disaggregate what is a considerable sum of money—approximately \$18 million; it might be exactly \$18 million. What is the exact figure, Mr Pickering? You can tell me that at least.

Mr Pickering—It is \$18.191 million.

Senator FAULKNER—It is \$18.191 million. I fear, Mr Campbell, that, to every single question I am going to ask, you are going to say that you cannot give me the level of detail. Let us cut to the chase. It appears that that is a bit of a risk—or is that only relating to these two firms?

Mr Campbell—If the questions of detail that you are going to ask me—in addition to the two that you have just asked and I have taken on notice—are ‘How much are you going to spend on newsprint?’, ‘How much are you going to spend on television?’ and ‘How much are you going to spend on radio?’, my answer to that is that that has not yet been determined. If, however, your questions are on some other detail, I will do the best I can. As I indicated in my answer to Senator Carr, we are at the very early stages of undertaking our developmental exercises with the two companies and our research. I stress that, of the \$18 million, most will go into fees for print, radio, television or other forms of getting to voters and potential voters, rather than the two companies. They obviously will be paid for the activity they do, but the vast bulk of that \$18 million will go on an activity to inform electors.

Senator FAULKNER—I accept that, but I think you need to accept—and I hope that you would—that the sorts of questions that I am asking are pretty standard ones for an estimates committee. I appreciate that one staff member may not be available tonight. I am just disappointed that no alternative arrangements have been made, because we have a situation where we are on a very sensitive area—something that you have to admit has not been totally lacking in controversy in the public arena. I am sure you would acknowledge that, Mr Campbell. There are different views in Parliament House about both the need for and appropriateness of this. I do not want to debate those issues here. This is not a forum for that. But that is the background.

We have an engagement by the AEC of an advertising agency and a public relations firm, and pretty important questions in relation to the contractual arrangements between these firms and the AEC are ones that you cannot answer tonight—things such as the length and value of the contracts. I have received some answers in relation to the nature of the tender process, but I expect if I explore them in greater detail I am not going to receive answers on things like who the principals of the firm are and so forth. It is difficult. Senator Murray might support the fact that this is fairly standard questioning at an estimates committee and these are questions that we would normally be provided with answers to.

Senator MURRAY—If you are asking for my opinion, it is unusual for an agency with the expertise, professionalism and skill of the AEC not to have a back-up in this sort of area.

Senator FAULKNER—What worries me is not doing a thorough job here. I am concerned about that, but perhaps Senator Carr would like to progress on some other areas.

Senator CARR—I would. Can I be clear about this: the \$18 million is for an advertising campaign to encourage people to enrol. Is that correct?

Mr Campbell—It is more than a campaign because, I as indicated, it goes over four years, with a little bit this year. I do not really want to use the term ‘campaign’, because it is a long-term issue regarding the close of rolls issue—which we have discussed before—enrolment, keeping your enrolment details up to date and enrolling when you are young, plus it is about informing the electorate about the change in arrangements we will have to put in place when proof of identify becomes effective eight months after passage of the bill.

Senator FAULKNER—Senator Carr has used the terminology ‘campaign’. It seemed eminently reasonable to me, but I accept what you say, Mr Campbell. What is the terminology you are using?

Mr Campbell—The reason I am a bit hesitant about using the term ‘campaign’ might just be a matter of semantics, but—

Senator FAULKNER—I thought they were the words that Mr Pickering used when he gave his evidence originally.

Mr Campbell—In effect, I was trying to make sure that it was not being interpreted as something that would just flow over a three- or four-week period. The reason it goes over four years is that the need for enrolment and the need to keep your enrolment details up to date are things that we will be continually reinforcing.

Senator FAULKNER—Okay, but if it is not a campaign what is it?

Mr Campbell—I do not want to push the point, but I feel that people sometimes interpret a campaign as something that goes for several weeks, when this is really more an ongoing awareness strategy. But if you are acknowledging what I am saying about the time—

Senator FAULKNER—It is not my job to acknowledge anything necessarily. I just want to understand what the preferred terminology you have is so we can compare apples with apples.

Mr Campbell—If you are happy to use the term ‘campaign’ over four years, I will use the term ‘campaign’ in this discussion.

Senator FAULKNER—You have indicated that you do not like the terminology ‘campaign’. I do not want to be anal retentive about this. One of the witnesses at the table used the terminology ‘campaign’, Senator Carr responded with, I thought, a perfectly reasonable question using the same the terminology, and you say that you do not like the term. Give me the AEC’s preferred the terminology.

Mr Campbell—Probably ‘ongoing awareness strategy over a number of years’.

Senator FAULKNER—That is an efficient, economical use of language.

Senator CARR—The point of this program is to encourage people to be enrolled correctly for the next federal election.

Mr Campbell—That is right—and for subsequent elections.

Senator CARR—Yes, of course. And there will be an ongoing program after that point. You have drawn our attention to the fact that it is reasonable to expect that there will be an election in the second half of next year between 4 August and the second Saturday in December—that is the normal spread of it. That does not give you a lot of time to get the rolls in order if you are seeking to encourage people to enrol, does it? You are spending only \$6 million this year and another \$5.7 million next year. Is that right?

Mr Campbell—That is the way the estimates are split between the financial years.

Senator CARR—How much of the \$6.1 million have you spent to date?

Mr Campbell—That is for 2006-07, so hopefully we have not spent anything.

Senator CARR—There was \$6.1 million for 2005-06. Is that right?

Mr Campbell—No, the 2005-06 money is \$1.5 million, and we have spent very little of that.

Senator CARR—In the next year?

Mr Campbell—\$6.1 million.

Senator CARR—What about 2008-09?

Mr Campbell—I will start again so there is no confusion. For 2005-06, there is \$1.6 million, but that will carry over; for 2006-07, there is \$6.1 million; for 2007-08, there is \$5.6 million; for 2008-09, there is \$1.2 million; and for 2009-10, there is \$3.8 million.

Senator CARR—How much do you intend to spend before the next election?

Mr Campbell—Until we go through the process that I outlined in my earlier answer about how we are going to do it and the fine detail, I cannot answer that question; I cannot take it on notice. It is something that we have to develop.

Senator CARR—What is the maximum amount under those estimates that you can spend prior to the next election?

Mr Campbell—Without changing any money from 2008-09, it has to be about \$13 million or \$14 million.

Senator CARR—\$13 million or \$14 million?

Mr Campbell—Yes. It has to be the first three figures I read out to you. But I would also stress that in an election year, as you are aware, the AEC gets a substantial supplementation—

Senator CARR—I understand that.

Mr Campbell—That also has public awareness money in it as well.

Senator CARR—I understand that. But that is a different—

Mr Campbell—That is a different lot of money.

Senator CARR—You referred before to \$18 million for advertising and public awareness and I understood you to be saying that there was \$31 million for other programs.

Mr Campbell—No, the \$18 million is in the \$31 million.

Senator CARR—So what is the total?

Mr Campbell—\$31 million. That is for the legislation that is currently before the Senate.

Senator CARR—Okay. You have indicated that you are doing focus groups this week and next week. What is the purpose of the focus groups?

Mr Campbell—The focus groups are both in urban and regional Australia and they are groups of people who are in various categories, such as youth, people who are frequent movers and older people. They are going to be asked a series of questions, but it is all getting to what type of awareness campaign will strike a chord and resonate with people to the point of them enrolling if they are not enrolled or, if they are enrolled, ensuring that their enrolment details are correct.

Senator CARR—What is the nature of the programs that you intend to undertake? What exactly do you propose to spend that money on? You may not be able to tell me how the programs will work, but what sorts of activities do you intend to pursue?

Mr Campbell—There will no doubt be some media advertising in terms of print, radio and television. Whether or not we will use other publications depends on whether or not there are other issues. There have been some suggestions made that in those divisions that have traditionally had a very high enrolment in the close of rolls period we might put desks in shopping centres. If those divisions are in the city, we might try in some way or another to get to people as they are going to and from their workplaces. Suggestions have included putting things inside buses and trains, because the experts argue that it is the inside that people look at in terms of advertisements, not the outside. There will also be material for both Indigenous communities and people from non-English-speaking backgrounds. There will be that whole ambit or spread, but I cannot give you the fine detail until we determine it. I hope that has been helpful.

Senator CARR—I understand that you cannot provide us with detail as to what the particular programs are. I am interested, though, if you are going to spend \$14 million, in how we can be certain that, given that we have not been able to do this as well as we would like in the past, it is going to be better now.

Mr Campbell—I can answer that in two ways. One is that you hope that you can always improve on what has been in the past, but I think probably the major difference that we are looking at here now is more fine grain targeting. By that, I mean fine grain targeting of both

geographic locations and particular groups. It is interesting that, when you look at the 423,000 who put in enrolment forms in the close of rolls period last time—I use that because 38,000 of them did not change their enrolment details—you see that it is not evenly spread across every division or electorate in the country. When you then look at the break-up of some of those divisions, you see that you might have an issue other than whether it is rural or urban; you might have an issue about some of the other groups that are in that community. We will be looking at more targeting.

Senator CARR—I am concerned that the programs have not been designed as yet. You have indicated that situation to the committee? Have they been designed or not?

Mr Campbell—No, and the legislation has not even passed the parliament yet.

Senator CARR—Do we have any evidence as to what works or what does not work in these programs?

Mr Campbell—No, and that is what we are working through now. For a start, until the legislation passes the parliament, I would be reluctant to commit too much Commonwealth money into doing something until I know the final form of the legislation. We have a commitment and we are working towards it, but if the legislation is passed in the next month or so we still have a 13-month period in which to work this through. We have started, and I have been quite open about what we are doing at the moment. To imply that we should have more detail by now—and I take that as a bit of a criticism—is probably not that fair.

Senator FAULKNER—I understand some of that and I accept some of that. But the part I do not accept is—and this is the disappointment for me—that, for whatever reason, on moneys which have been expended and contracts that have been finalised, some for a quite significant period of time, the commission is not able to provide that information for whatever reason. And that is not satisfactory.

Mr Campbell—I accept your comments on that, and we will get the information to you as soon as possible in the next couple of days.

Senator FAULKNER—I find that frustrating. As I do not want to waste the committee's time and I do not want to waste your time either, it makes meaningful follow-up extremely difficult. I indicate now that I think all the committee can do in relation to those matters is report on them to the Senate. I have indicated informally to the chair and the deputy chair that that is what I think we ought to do and not to waste a great deal of time on it. By the way, I accept the inability of a witness to attend—we are, believe it or not, reasonable people—and I completely accept that. What I find difficult to accept is that another official of the AEC does not have knowledge of the matter or access to a file or the like. That is what I find disappointing. Having heard what you have said in response to Senator Carr, I think my response to you is a fair one.

Mr Campbell—I accept that. I can assure you that, unfortunately, it was an oversight; it was not in any way deliberate.

Senator FAULKNER—And I accept that.

Senator FORSHAW—Mr Campbell, a moment ago you said that there are 16 or 17 months to go before—

Mr Campbell—Thirteen.

Senator FORSHAW—whatever it is—the expected time of the next—

Mr Campbell—That is the first possible date. I said before you came in, as has been the case for many years now, there is a House of Reps with a half Senate. The earliest it can be held is the first week of August.

Senator FORSHAW—I am aware of your answer on that. There is a state election in New South Wales scheduled to be held at the end of March next year. That is a fixed election term. That is less than 12 months away—it is nine or 10 months away. Are you factoring that into your program here, given that election will be held, it is the biggest state and the AEC roll will be the basis for that election?

Mr Campbell—We are conscious of state elections. Indeed, we are conscious that there are also a lot of local government elections on a regular basis around the country.

Senator FORSHAW—But we know they will not be held before the next state election in New South Wales.

Mr Campbell—Yes, but in other states. For example, I think South Australia has a local government election in September or October this year.

Senator FORSHAW—I missed that one. It is not high on my radar.

Mr Campbell—We are conscious of them. So we have to work that in as to what we do and when we do it, fitting into particularly state government elections. We put it on the table that between now and the next federal election there will be a Victorian state election, towards the end of November—I think it is on 25 November this year. And I think, given the way it works, Queensland has to have a state election before our next federal election. They have to have it before April next year. So we, in effect, have to manage this around three state elections.

Senator FORSHAW—That goes some way to the point that was of importance in the questions asked by Senator Carr about where the initial work is headed and the time frame that is available.

Senator CARR—Mr Campbell, in February you indicated to the committee that the AEC had conducted a study of the voting cultures of people of non-English-speaking backgrounds. You said that the study would be released publicly. Has that happened?

Mr Campbell—Yes. That would be on our website. Recently, we put on our website a number of research papers on informality. One was the informality paper for the 2004 general election, one was for the Werriwa by-election six months later and another one was called ‘Pilot Project on Informality in Port Adelaide’. We have copies of all three here if you would like to see them.

Senator CARR—Thank you. That would be very helpful.

Mr Campbell—They are also on our website.

Senator CARR—I am sure that is the case, but obviously I am not always as careful a reader of your website as I should be.

Mr Campbell—We also circulate them to a large number of people, but perhaps you are not on our mailing list, Senator.

Senator CARR—I am sure you will be able to fix that, given that I will be asking you questions from time to time.

Mr Campbell—The one that I was referring to in your particular statement is the one about Port Adelaide.

Senator CARR—Thank you very much. Have there been any further discussions with the government about the introduction of voluntary voting?

Mr Campbell—I have not had any discussions with ministers on that issue.

Senator CARR—So there have been no further discussions at all?

Dr Watt—I think Mr Campbell said that there had been no discussions.

Senator CARR—None?

Mr Campbell—I have had no discussions.

Senator CARR—Has the AEC undertaken any policy work on voluntary voting?

Mr Campbell—No.

Senator CARR—Is there a polling booth on Norfolk Island?

Mr Dacey—Yes, there is.

Senator CARR—Where is it?

Mr Dacey—There is a pre-poll centre on Norfolk Island. It is open on polling day as well.

Senator CARR—Where is it located? Is it at the Administrator's office?

Mr Dacey—I am not sure, but we can check that for you. It would make sense.

Senator CARR—Are the pre-polls conducted through the Administrator's office?

Mr Dacey—Yes. We usually appoint someone from the Administrator's office as the returning officer or as the assistant returning officer for that polling.

Senator CARR—Is that the Administrator himself, a staff member or a secretary? Who is it?

Mr Dacey—We obviously have not appointed polling officials for the next election yet. I am not sure. I would be surprised if it was the Administrator.

Senator CARR—Who was it last time?

Mr Dacey—We will have to take that on notice.

Mr Campbell—We do not know. As you know, we have over 7,000—

Senator CARR—Yes. I do not expect that you would have everyone on hand.

Mr Campbell—We were not forewarned that this question would come up, so we will take it on notice and come back to you.

Senator CARR—So you are telling me that there is actually a polling booth on the island itself on polling day?

Mr Campbell—Yes; as well as a pre-poll before polling day. I have just been advised by my staff that they are pretty certain, but not 100 per cent sure, that there was one on polling day. But there is certainly a pre-poll there.

Senator CARR—I have been advised that there was no polling booth on the day of the election. Is it possible to check whether that information is accurate?

Mr Campbell—We certainly can check.

Senator CARR—I will put some questions on notice on the presumption that the information I have been given is accurate. If it is not accurate, I am sure you will be able to advise us accordingly in your response. You indicated to the JCEM that you believe that electronic voting is a feasible option for future elections. Did I understand you correctly? Is it the AEC's view that the introduction of electronic voting is feasible, to the extent that you are now prepared to investigate it?

Mr Campbell—There is quite a bit of pressure from particular groups to allow electronic voting. Unfortunately, electronic voting can occur in a number of different ways. We have indicated that there are some forms of electronically assisted voting that can be done, as we put in our submission to the Joint Standing Committee of Electoral Matters, but we have also at various times pointed out that, depending on the style of voting that people might want to do, there are some difficulties. What we have said publicly in our submission to the joint standing committee is still our position.

Senator CARR—What progress are you making on a trial for electronic voting?

Mr Campbell—We are not doing any real work on it. While we are keeping an eye on what is happening in other administrations, particularly overseas, we will not be doing any hard and fast work until we have a government response to those recommendations.

Senator CARR—Can you confirm for the committee the last possible date that the commission could implement a trial for electronic voting for the 2007 federal election?

Mr Campbell—No, I cannot, because it would depend on what was decided to do and whether, for example, it would be trialled across the country or trialled in a number of locations. It would very much depend on what decision was taken.

Senator MURRAY—Senator Carr's question is germane to an issue I wanted to explore with you, Mr Campbell. I am glad Dr Watt is here as well, because of an earlier discussion we had about the development of the government response to the Joint Standing Committee of Electoral Matters report into the 2004 election. I was impressed by the Chair, Mr Tony Smith, getting a move on and getting that report out. I have now dealt with four election inquiries, and that has been the fastest. It was deliberately brought out early to give the government time to get up their response, get up the legislation and get going.

I am becoming concerned that, a year after the report was out, there is no government response. I appreciate that some matters are more difficult and take a longer time to assess, but it is not unknown for government responses to come out in stages—in other words, to respond to a series of recommendations. My question to you—and hopefully Dr Watt will add an answer—is: is the consultation between the AEC and the department complete enough to

have put a full brief before the cabinet so that they can respond to that report and so that we as the political class know what is going on and the legislation can start to be constructed?

Mr Campbell—I will answer from the point of view of the commission. I believe that we have been given every opportunity—and, indeed, we have put forward our views on all of the recommendations that are not the subject of the current bill. As far as I am concerned, to both the department and to the minister's office, I believe that our views have been put forward fairly and strongly.

Senator MURRAY—So, to summarise it colloquially, you are not the cause of any delay?

Mr Campbell—I did not think that was your question. I thought your question was: am I confident or comfortable that my views and those of the commission were known? The answer is yes.

Dr Watt—The government this time seems to have adopted a dual track role—some matters first, some matters later. The effort that has been put into the earlier matters has slowed down work on some of the later ones. We will get on with it as quickly as we possibly can. At the moment the focus of our small team is on locking the legislation in place and we will come back to everything as quickly as we can. Mr Hutson might be able to give you something a little more specific about that.

Senator MURRAY—We know from those recommendations that some of those, if the government were to approve them, need a long time frame in which to be implemented. We have all got in our minds that this election is now 18 to 20 months away and it is starting to get to the stage, particularly with issues like electronic voting which caused me to intercede in this matter, where the hard work of the committee and the good performance of the chair in getting the report out early so the government could respond is starting to waste away.

Dr Watt—The point I would make before Mr Hutson comments is that not all of that has been wasted. A lot of it is in the early legislation, so it is a bit more mixed than that.

Mr Hutson—I do not think that I have an enormous amount to add. The team is fairly small and we have been very much focused on getting those high-priority reforms, which, as you are aware, had a considerable amount of interest both by the parliament and by the committee which had an investigation into that legislation. That process is continuing.

Senator FAULKNER—The truth is we have actually had quicker response when there was no team at all. That is a fact of life. There was a quicker response when the team did not exist.

Senator MURRAY—What is more, the matters being dealt with are not in many cases those matters which had cross-party support. They are controversial issues. That is a matter for government to decide but my concern is exactly that being outlined by Senator Carr: if they do not get a move on with it, if electronic were to be trialled, we are going to have to wait for the next electoral cycle. That is hopeless. This is supposed to be a modern efficient economy which gets on with new ideas. This is hopeless.

Mr Campbell—I have had some details that you were after and if I go through those it might help. This is on the contracts—

Senator FAULKNER—Let us deal with this other matter and we can come back to the contracts, if that is okay. This issue goes to the Policy Advice Unit in DOFA and its effectiveness. Is it the view of the AEC that the protocol between the AEC and the department is working well?

Mr Campbell—Yes. I do not have any problem with the operation of the protocol.

Senator FAULKNER—What is the attitude of the AEC to amendments to the protocol?

Mr Campbell—It would depend on what amendments were being proposed.

Senator FAULKNER—You would be aware of the amendments that are being proposed.

Mr Campbell—To the protocol?

Senator FAULKNER—Yes.

Dr Watt—We are not intending to make any amendments to the protocol, as far as I am aware.

Senator FAULKNER—But aren't you reviewing the protocol?

Dr Watt—We are having a look at it. We keep it under review.

Senator FAULKNER—You are having a look at it but you have not told the AEC that you are having a look at it. That is a bit sneaky, Dr Watt. I am surprised at you.

Dr Watt—I think that is a little unfair. You can look at these things, and we keep it under review. We do not have any plans for any amendments at this stage that I am aware of. It does work. From Mr Campbell's perspective it works; from our perspective it works. But obviously you keep these things under review.

Senator FAULKNER—Perhaps my memory is failing me, but I believe a witness at the table this morning informed us that the department was reviewing the protocol.

Dr Watt—I do not think he said there was a formal review, if my memory serves me correctly.

Senator FAULKNER—He did say that—

Dr Watt—I will ask Mr McAuley to clarify it.

Senator FAULKNER—and I am just very concerned, Dr Watt, that you have not let the AEC into the game.

Dr Watt—I do not think that that has been said by either the AEC or us.

Senator FAULKNER—That is true. It has been said by me—I would admit that.

Dr Watt—I think you are incorrect, I am afraid.

Mr McAuley—I think what I said this morning was that we were reviewing the protocol in the light of the Uhrig report and also the fact that we have various issues in the protocol that I think we would want to revisit. The AEC are aware that we are looking at it.

Senator FAULKNER—No, they are not; they just told us they are not.

Mr McAuley—We have not actually given them a new draft or anything, but the fact that we are reviewing the protocol has been raised.

Senator FAULKNER—The commissioner has just told me that he is not aware of it, so you cannot have it both ways. Either you are aware of it, Commissioner, or you are not.

Mr Campbell—Perhaps if I make one clarification, Senator. There is of course the Uhrig report, where all statutory authorities have to have a statement of expectation and a statement of intent. I am aware that the department is working with the minister's office on the first cut of that for the commission. What I would go on to say is: after that, whatever is in that statement of expectation and statement of intent, the protocol would have to change, would be my guess, because I think quite a bit of what is in the protocol would go into the statement of expectation and statement of intent. That may be what the department of finance are referring to.

Senator FAULKNER—It may be, it may not be. Anyway, it seems to me that there is a little bit of a lack of coordination here.

Dr Watt—I think that is a touch exaggerated.

Senator FAULKNER—Let the *Hansard* record tell the story, Dr Watt. I am happy for that to occur. I will be checking it myself—when I've got nothing else to do! Before we go back to the other issues, Mr Campbell, what involvement does the AEC have in the preparation or content of the government response to the JSCEM report? Senator Murray has raised the issue of the government response to the 2004 election report, so let's be specific about that. Can you briefly outline to the committee how the AEC provides input to the government response, because, as I understand it, the primary drafting responsibility lies with the policy advice unit—and Dr Watt will quickly correct me if that is not right.

Mr Dacey—Once the joint standing committee's report was released and the recommendations, the AEC obviously reviews those recommendations. The AEC goes through those recommendations one by one and gives its views and comments as to whether or not the AEC would support those recommendations and, in supporting or not supporting, gives reasons why. We meet regularly with the department of finance on that and we provide that information, which is then provided to the minister's office. So we give our AEC views on each of the recommendations.

Senator FAULKNER—Thank you for that. You provide those AEC views to whom?

Mr Dacey—Those AEC views are provided to the department of finance and also to the minister's office.

Senator MURRAY—The minister being the minister of state?

Mr Dacey—The Special Minister of State, yes.

Mr Campbell—But all of my briefs to that minister also are copied to the Minister for Finance and Administration.

Senator FAULKNER—As a matter of course, you do drop copies to the portfolio minister?

Mr Campbell—That is correct.

Senator FAULKNER—That is fair enough. Anyway, you were going to come back to me, Mr Campbell.

Mr Campbell—Yes. I can probably answer most of your questions, although there will be one that I cannot. BMF were appointed in mid-2005. It was a select tender, not an open tender. The principal CEO is Mr Matthew Melhuish. They were appointed, as I said, from mid-2005 until after the next election, with an option for one more election after that. Until the strategy is worked through or the awareness campaign is worked through, their contract has a fee-for-service arrangement for payment, but I will have to get the details of that—I do not have them with me. Regarding Haystac, the managing partner that we deal with is Mr Anton Staindl. The period of engagement is until after the 2007 election. Similarly, they have a fee-for-service cost arrangement until the awareness strategy is worked through and we see whether any changes are required.

Senator FAULKNER—Do you know what the fee-for-service arrangements are?

Mr Campbell—No. As I said, I cannot get that.

Senator FAULKNER—Could you perhaps provide the fee-for-service arrangements for both BMF Advertising and Haystac Public Relations? Could you take that on notice?

Mr Campbell—Yes, we certainly will.

Senator FAULKNER—When you say ‘after the 2007 election’, is there a precise end date? I appreciate what that means, but does the contract have a more precise end date?

Mr Campbell—Again, I do not have the contract. These are the details that we have been able to get through at this hour of the night. I can take that on notice. I suspect that it would be until after the election or a month or so after the date of the election. That would be my guess. That is just speculation. We will come back to you on that.

Mr Dacey—Quite a few of our contracts are framed in that way because of the unknown timing of the election. It says ‘until after the next election’.

Senator FAULKNER—Fair enough. What about the tender process for Haystac?

Mr Dacey—Because they were reappointed—

Mr Campbell—No, Haystac are new.

Mr Dacey—No, Haystac are—

Mr Campbell—Sorry. Yes, they were reappointed. Because there was an option in their—

Mr Dacey—But there was a tender process—

Senator FAULKNER—Yes, but there must have been an original tender.

Mr Dacey—There was, prior to 2004, so we can give you the details of that.

Senator FAULKNER—You might also provide information on that for the committee.

Mr Campbell—Yes.

Dr Watt—Could I come back to Senator Murray’s question? I think Senator Faulkner is finished on the contract—

Senator FAULKNER—I have not finished, Dr Watt, but I have on that matter.

Dr Watt—That is what I meant: on that matter. If we can go back to the issue of the timing of the government’s response, you asked, Senator, about when this will be considered by

government and brought into parliament. I cannot commit government, but clearly we have put a fair amount of work into this already. We would hope that this will be considered by government, by cabinet, in the next several weeks and, depending upon what they find, that will determine the timing of the parliamentary response.

Senator MURRAY—Thank you, Dr Watt. What I want to be satisfied with is that the independent authority have put their views. You have done the assessment and now it is up to the executive to—

Dr Watt—We are very close to that.

Senator MURRAY—That is good.

Dr Watt—We are not quite there but we are very close.

Senator MURRAY—As you would expect, the earliest that a consequent bill would appear would be August, perhaps for passage in September or October. You see what is happening.

Dr Watt—I understand the issue. As I said, we are close. That is all I can say.

Senator CARR—Dr Watt, is it your expectation that a response will be tabled by the end of the current session?

Dr Watt—I am not clear on that. I could not speak for the government anyway on that, but we are close to going to government.

Senator CARR—That is a different thing. Is it before government at the moment?

Dr Watt—Not quite.

Senator CARR—When will you have it before the minister?

Dr Watt—It has been backwards and forwards to the minister. There are still one or two issues to be resolved and then it is a matter of going to cabinet.

Senator CARR—When do you anticipate the backwards and forwards movements will have concluded?

Dr Watt—All being well, shortly.

Senator CARR—What do you mean by ‘shortly’?

Dr Watt—In a few weeks.

Senator CARR—When the Senate resumes its formal sittings in a fortnight’s time?

Dr Watt—I would think cabinet would consider this in the next several weeks. Whether that means it will be in time to get the response into parliament before the parliament rises for the winter recess, I do not know. It depends a bit on the cabinet timetable.

Senator CARR—I take it, Mr Campbell, that you cannot enact the government’s response until that response to the report is formally tabled?

Mr Campbell—Certainly I would not do anything until tabling; indeed, those that require legislation would have to wait for legislation.

Senator CARR—Indeed.

Senator FAULKNER—As an experienced departmental secretary, Dr Watt, you of course would be aware of the requirements in terms of the amount of time give to government to respond to a parliamentary committee report. As an experienced departmental secretary, I wonder if you can share that expertise with the committee, please.

Dr Watt—Thank you for that compliment. I will need to check whether we are within the timetable or not, but I suspect we are not. We are a bit late.

Senator FAULKNER—I would respectfully suggest that you are very late. When I say ‘you’ I mean that the government is very late—I do not for one minute suggest that you have personal responsibility for this. I just wanted to make sure that we all knew that the time was long past.

Dr Watt—I think we mentioned that this morning.

Senator FAULKNER—There is nothing like reinforcing the message. Mr Campbell, you would be aware that we have had the benefit over many estimates rounds of Ms Mitchell providing a status report in her area of responsibility. I have been informally informed by you and Mr Dacey that Ms Mitchell has now gone to better and brighter responsibilities. That is good news, but I wonder if the AEC could nevertheless provide that brief status report?

Mr Campbell—I will ask Mr Kevin Bodel to come to the table. He has replaced Ms Mitchell in her position in the funding and disclosure section. Fortunately, Ms Mitchell is still with the commission. She is now in charge of the electoral roll integrity unit.

CHAIR—She has not escaped entirely.

Mr Campbell—We are very happy she is still with us.

Senator FAULKNER—I hope that is a promotion.

Mr Campbell—No, it is a transfer.

Senator FAULKNER—A sideways promotion. Congratulate her from us.

Mr Campbell—She was very happy about the opportunity.

Senator FAULKNER—She is probably very pleased she does not have to give these status reports to this committee anymore. However, the bad news is that Mr Bodel does.

Mr Campbell—Mr Bodel, I am sure, will keep the standard up.

Mr Bodel—I will do my best. The status report is that we have three special matters under way at the moment. There is the Tony Windsor-Greg Maguire matter, which arose out of some evidence given to the Finance and Public Administration References Committee. That matter is still under consideration. There is Kelvin Thomson’s section 311A matter. Kelvin Thomson MP wrote to the Electoral Commissioner alleging a series of breaches of the Electoral Act by Commonwealth government departments. That matter is still under consideration. The final one is a possible third-party return by the Exclusive Brethren. There were media reports late last year that alleged that the Exclusive Brethren distributed some pamphlets at the 2004 federal election. We are having a look at whether they need to make a third-party return. That matter is still under consideration.

Senator FAULKNER—In relation to the Exclusive Brethren issue, did that arise because of media coverage and the like? I know some of these matters arise because of media coverage—that has often been the case, and we have had that reported to us. On other occasions, and we have an example here in relation to Mr Thomson's formal complaint, it comes from a member of parliament or an individual. What is the situation with the Exclusive Brethren issue? I know that at least one federal parliamentarian has raised the issue publicly. Let me know what the basis for your branch having a look at this matter is.

Mr Bodel—The basis was media reports and questions raised in parliament in September 2005. Obviously this is an issue that has bubbled to the surface on a number of other occasions since, including very recently with Senator Brown calling for a parliamentary inquiry into the role that Exclusive Brethren played in the Tasmanian state election.

Senator FAULKNER—Can you indicate to the committee when these three inquiries or investigations commenced and where the process, in the broad, is up to? Can you briefly let us know that?

Mr Bodel—I will start with the Exclusive Brethren. That commenced in September 2005 and is still ongoing. I would describe it as not near completion. The Windsor-Maguire one came about as a result of a letter.

Senator FORSHAW—It was a letter from me. It was a good letter, too.

Mr Bodel—That is very near completion. The Kelvin Thomson letter arrived in January this year. That is also very near completion.

Senator FAULKNER—As I recall, your practice once these matters have been finalised is to write directly to the complainant or named parties involved and post the matter on your website. Do I have that right?

Mr Bodel—That is right, yes.

Mr Campbell—I am not sure we have had a 311 issue before, which is Mr Thomson's issue. All the others are under a different section of the act. So I am not sure how we will handle Mr Thomson's issue.

Senator FAULKNER—So that might mean a different approach? Surely, you would still formally communicate with Mr Thomson?

Mr Campbell—Certainly. The only question I am raising is whether that would go on the web. There will certainly be correspondence with Mr Thomson on that one.

Senator FAULKNER—Is there some policy issue involved in whether it is placed on the web?

Mr Campbell—No. The only reason I raised it was that I was conscious that the others under a different section. The 311 is a very different issue to the funding disclosure issues.

Senator FAULKNER—Sure.

Mr Campbell—It is the first time we have had one of that genre. I have not thought about whether it would be appropriate to post it on the website.

Senator FAULKNER—I appreciate that the decision has not been made. Is that one that falls to you, Mr Campbell? Is that a decision that will be made by the commissioner?

Mr Campbell—The response to Mr Thomson will be from me as the commissioner. The decision about going on the website will also be mine.

Senator FAULKNER—I saw a press clipping in April—I have a lot of time on my hands so I can read these sorts of things—about an ABC board election which, I think it is fair to say, received quite a bit of public notoriety. I know it would have been around April this year. The press coverage included the role of the AEC and the need for the AEC to rely on the ABC to provide the list, in this case, of staff who were eligible to vote. With respect to the conduct of this particular election—and obviously you were conducting a range of elections, and I am going to ask a broader question about that in a moment—were there particular concerns in terms of any AEC involvement with the ABC that caused the amount of press coverage, or was it to do with matters extraneous to the AEC?

Mr Campbell—I think the latter. The press coverage that I recall was tied up with other legislation, and it was as an aside that the election for the staff elected member was currently being undertaken by the AEC. They were the sorts of press reports that I saw. That was as far as it went with us.

Senator FAULKNER—There were questions raised about eligibility to vote and a range of other things. I appreciate they are not matters for the AEC; at the end of the day you are dependent on what you are provided. You can confirm that, can't you, Mr Campbell?

Mr Campbell—Yes.

Senator FAULKNER—But I wondered whether there were any particular or special difficulties that that election caused the AEC.

Mr Campbell—I and my colleagues at the table are not aware of any special difficulties with that. It was just another commercial election.

Senator FAULKNER—Are commercial elections reported in your annual report?

Mr Campbell—Yes, there is a report about the elections we do that are not for federal—

Senator FAULKNER—What is the pattern with that workload for the AEC? I mean with the non-core activity of the AEC, which is commercial and other elections. I do not know that they are all fairly defined as commercial elections—for example, trade union elections and the like.

Mr Campbell—There are three elements to it. We do some elections for other levels of government. For example, we do the work for the Tasmanian government for state elections, for the lower house and the Legislative Council. We assist local government elections. And we will be assisting—when I say assisting, we will have a contract with—one of the three states that is coming up in the next 12 months. So there is that level of work.

We also have, as you know, statutory responsibilities under the Workplace Relations Act and Work Choices, so we have to do those. Obviously, our responsibilities there have changed recently with the introduction of protected action ballots. We are not the monopoly provider of that, but we are in the legislation and there are some that we will undertake.

In addition to that we have for a number of years had a rather, if you like, laissez-faire approach to what other commercial activity we do. Late last year we decided that we would have more consistent approach: that if our price was accepted and if the style of election that was being run was not outside our values and our culture—in other words, we run fair elections et cetera—we would be interested in doing more activity. But, against all of that, we say that there are two main elements of our core business—the elections and maintaining the roll—and nothing that we do for any of the others is to cut across that.

Senator FAULKNER—Is the pattern of the commercial work increasing, pretty consistent or decreasing?

Mr Campbell—It was decreasing up until 2005. I now anticipate an increase.

Mr Dacey—If I could just give you some figures from the annual report, we conducted 49 commercial elections—this is elections other than those that we were required to conduct under statutes—36 of which were certified agreement ballots, which are quite simple yes/no ballots. That is quite a small number.

Senator FAULKNER—Thanks for that.

Senator CARR—Mr Bodel, you have indicated that you are currently running three investigations. Are you investigating any other entities or donors that have not, or have not properly, lodged returns?

Mr Bodel—In the course of our normal work we have a look at quite a few entities to make sure that they have completed their returns appropriately. We have a schedule of compliance reviews that goes out in an attempt to ensure that all people who should have made a disclosure have in fact do so. There is a continuous process of checking disclosures to make sure everyone has completed them.

Senator CARR—That is your normal audit program—is that right?

Mr Bodel—Yes.

Senator CARR—Are you investigating companies known as Pilliwinks Pty Ltd and Doogary?

Senator FAULKNER—I hope they are not. I am sure they are not because it would have been picked up in the answer that Mr Bodel gave—

Senator CARR—That is the point I was coming to. It is put to me that they donated \$30,521.59 and \$374,750 respectively to the National Party in 2004-05. They have not submitted a return to the Australian Electoral Commission and have failed to do so in the past. Can you confirm that that is the case?

Mr Bodel—We have had Pilliwinks and Doogary raised with the AEC on a couple of occasions in the past. We have examined both of those entities and have found that they are neither associated entities nor donors to the National Party. Unless there is some significant evidence to indicate otherwise, I would not think we would be reopening those—

Senator CARR—So you have investigated them and found that they were not donors?

Mr Bodel—We had a look at them and made an assessment about whether they were associated entities or donors. Our assessment was that they were neither of those.

Mr Campbell—Perhaps we should add that my understanding is that both of these organisations are actually listed in the ‘Other receipts’ component of the National Party return. In other words, the money is there, but it is not listed as a donation but rather under ‘Other receipts’, for services rendered, I presume.

Senator CARR—You are satisfied that that is an accurate listing?

Mr Campbell—On the basis of the investigations that have been undertaken in the past, yes.

Senator CARR—Kingston Investments have an overseas address. I understand that they made a donation of \$50,000 to the Liberal Party. I am also advised that there was no return lodged for 2004-05. Are you aware of that company?

Mr Bodel—We are aware of Kingston Investments. We have pursued the normal activities we pursue in attempting to obtain a disclosure from Kingston Investments but they have not made a disclosure to date.

Senator CARR—Is it the fact that they have registered at Guangzhou International Trade Centre in Guangzhou an impediment to you undertaking such an investigation?

Mr Bodel—Clearly we can pursue these matters as far as possible within the law in Australia. That means that we can pursue them right up to the point of taking them before a court. We will go as far as we have to.

Senator CARR—At what point do you say that it is not likely that a return is going to be made for 2004-05 and you launch court proceedings?

Mr Bodel—I am not sure in the case of that particular entity. I would have to take that on notice and get back to you.

Senator CARR—I do take it that, given that this is a company listed on your annual returns website, you believe that a donation was made?

Mr Bodel—Yes, we believe that a donation was made.

Senator CARR—Of \$49,981. I take it also that you are of the view that no return has been provided?

Mr Bodel—Not to date, no.

Senator CARR—How long does the company have to make that return?

Mr Bodel—We do not usually put a final date on these sorts of things. We basically pursue it as far as we possibly can in an attempt to generate compliance by these entities. There are entities that have been pursued for a number of years—

Senator CARR—So it could be years?

Mr Bodel—yes—and then make a disclosure. The other thing is that they are quite clearly disclosed by the party they donated to.

Senator CARR—Yes. I am not suggesting that they have not been. I presume that is how you have discovered this matter. What is the longest period of time you have had on record for a company to make a disclosure and for you to accept that disclosure?

Mr Bodel—I would have to check that.

Senator CARR—You do not have any sense of it at all?

Mr Bodel—No.

Senator CARR—Mr Campbell, do you have any sense of it?

Mr Campbell—No. I think that would be speculation. But we will go back and examine our records to see what we can find.

Senator CARR—Does it happen very often that you have a foreign firm donating to a political party and they are not making a return?

Mr Bodel—I do not believe it happens very often. I believe the number of foreign donations is not very significant. I could not give you precise figures.

Senator MURRAY—There is a very good summary on my website.

Mr Bodel—I will check that, thank you.

Senator CARR—Can I go back to the examples of Pilliwinks and Doogary. What services did they provide that satisfied you that they did not require a return?

Mr Bodel—The National Party indicated that services they provided were management fees, redemption of short-term loans and reimbursements.

Senator CARR—Can you explain what they are about?

Mr Bodel—I cannot. Those statements are not a statutory requirement. They are something that we ask the political parties to do on their disclosure returns so we are able to discern what is a donation and what is a commercial transaction.

Senator CARR—Doogary provided services to the value of \$374,750. Can you be more precise as to what services were provided to that value?

Mr Bodel—No, I cannot. It is not within our powers to investigate those sorts of receipts.

Senator CARR—But you are satisfied that they were genuinely services offered, to the point where they do not require to be treated as a donor?

Mr Bodel—Yes, we would be satisfied.

Senator CARR—On what basis did you draw that conclusion?

Mr Bodel—We conducted compliance reviews of the National Party in Victoria and found their returns to be accurate.

Senator CARR—The National Party's returns were accurate, but I am interested in these services. It is a lot of money—\$374,750. Presumably that is a lot of service, but I cannot quite gather from you, and presumably you cannot tell me, what services were actually provided.

Mr Bodel—No, because we are not in a position to inquire into what those services were.

Mr Dacey—In terms of the legislation, we do not have that power. As Mr Bodel said, in relation to the compliance review that was conducted of the National Party, we were satisfied that the return was accurate. But we do not have the power to go into services like that. We were satisfied that they were services and not donations.

Senator CARR—Did you have a statutory declaration to that effect?

Mr Bodel—I do not know that precisely. Usually—and this is just speculative—it constitutes things such as receipts for services and so on.

Senator MURRAY—So it is a paper trail?

Mr Bodel—Yes.

Senator CAROL BROWN—You can look at invoices and the like.

Mr Bodel—Yes. That is how we ascertained—

Senator WEBBER—That is part of the compliance review.

Mr Bodel—Yes.

Senator CARR—Regarding the \$30,521 that Pilliwinks contributed, was that \$30,000 worth of services? What services were provided?

Mr Bodel—Like I said, we are not able to ascertain precisely what the services were apart from what has been stated in the National Party of Victoria's returns. It is not within our power to look closely for what the precise service was.

Senator WEBBER—Would the invoices have specified that, or did they just say 'for services rendered'?

Mr Bodel—They may have specified.

Mr Dacey—We do not have that detail here. I think the important thing is that, with the combination of the return and the compliance investigation, on the basis of the information we gathered, we were satisfied that they were services rather than donations.

Senator MURRAY—Could I just confirm the process with you. I assume you behave as an auditor would—namely, that you check the documents that are available on site and you do not take copies of them back to the office. You would not have kept copies of the receipts or anything, would you?

Mr Bodel—No, we would not.

Senator MURRAY—You would check and verify it on site.

Mr Bodel—That is right—it is a field audit.

Senator MURRAY—Both by law and by regulation there is no requirement either for a statutory declaration or a certification process, is there?

Mr Bodel—No, not for these audits.

Senator MURRAY—Would the party official with whom you discuss the matter be required to certify that these were services?

Mr Bodel—The party official certifies the return that says that the money was payment for a service.

Senator MURRAY—So there is a certification that the return is accurate?

Mr Bodel—Well, the certification occurs on the return. It does not actually occur when we go and do the audit.

Senator MURRAY—Is there a penalty for a false certification?

Mr Bodel—There is, yes.

Senator MURRAY—Not, incidentally, that I am implying there is in this case.

Mr Bodel—No. But there is a penalty for false certification.

Senator CARR—Mr Bodel, you are saying that you do not have the power to look behind the statement. In essence, is what occurs that the agent for the registered political party states that it is a true and accurate statement and you have to accept or reject that?

Mr Bodel—No. We follow it up with a compliance review that would check for things such as receipts to verify that the service had been provided. We are not able to go to Pilliwinks or Doogary Investments and ask them to show us what sort of service was provided.

Senator CARR—They were not required to put a return in and therefore they are not a part of the audit—is that the logic of the position?

Mr Bodel—That is correct. We have in the past had a look at Pilliwinks and Doogary and our assessment was that they did not need to make a return. Consequently, they do not fall under the purview of the act.

Senator CARR—Why did you undertake an inquiry into those two companies?

Mr Bodel—In the past?

Senator CARR—Yes.

Mr Bodel—It was at the request of a member of parliament, I believe. I would have to go and check the precise details.

Senator CARR—I am interested to know how it is that you undertook it. You did not act independently. You acted in response to an inquiry?

Mr Bodel—In this instance it was a response to an inquiry, yes.

Senator CARR—Do you have the capacity to act independently?

Mr Bodel—Absolutely.

Senator CARR—Have you ever done that?

Mr Bodel—We do it all the time.

Senator CARR—As part of the audit process?

Mr Bodel—Yes.

Senator CARR—Across all political parties?

Mr Bodel—Absolutely.

Senator CARR—With regard to another matter, the estimates for the revenue costs of tax deductibility provisions of the electoral and referendum amendments bill, the provisions that you have in the explanatory memorandum are \$4.9 million in 2007-08, \$6.5 million in 2008-09, \$5.4 million in 2009-10 and \$5.7 million in 2010-11. Is that still the commissioner's estimate?

Mr Campbell—It is not my estimate, Senator.

Senator CARR—Whose estimate is it? The department's?

Mr Hutson—No. It is a revenue item; that is an estimate prepared by the Department of the Treasury.

Senator CARR—Is it your understanding that that estimate still holds?

Mr Hutson—Yes.

Senator CARR—You have not been advised of any variation?

Mr Hutson—No.

Senator CARR—Do you know how those estimates have been calculated?

Mr Hutson—No.

Dr Watt—Nor would we expect to, Senator. Revenue estimates are the province of the Treasury. We would not expect to be advised of the methodology by which the calculation is made.

Senator MURRAY—It is a territorial matter.

Senator CARR—I know the line of argument that is being followed here. I am interested in knowing whether it remains the current estimate.

Dr Watt—We are not aware that Treasury have changed the estimate. It is not so much a matter of territory as archaic science.

Senator MURRAY—I am quite sure you would not like to pick an unnecessary quarrel.

Senator CARR—This may be the last issue I would like to raise with the commission and it is the question of overseas voters. What is the commission's view in relation to the current voting arrangements for those Australian citizens who reside overseas?

Dr Watt—Do you want our view?

Senator CARR—Yes, what is your view? Do you have a position on the current arrangements? Do you think they are satisfactory?

Mr Dacey—Given the dispersed nature of our citizens overseas, we, in conjunction with the Department of Foreign Affairs and Trade, our website and our advertising, do the best we can to facilitate voting overseas for Australian citizens.

Senator CARR—As I understand the situation—and correct me if I have made an error here—although someone may well remain an Australian citizen, if they are not currently enrolled and have been overseas for more than three years they are not eligible to enrol from outside Australia.

Mr Dacey—That is correct.

Senator CARR—And if you have been living overseas for less than three years and you intend to return within six years you may be able to enrol from outside Australia and request overseas electoral status, although voting is not compulsory. Is that accurate?

Mr Dacey—That is right. Voting is not compulsory for Australian citizens who are electors overseas.

Senator CARR—The Senate Legal and Constitutional References Committee report called *They still call Australia home: inquiry into Australian expatriates* includes a recommendation that Australians living overseas should be entitled to register as eligible overseas electors if they have left Australia in the previous three years or if they have returned to Australia for any length of time in the past three years and they intend to resume residence within six years of their departure, and that Australians who have been living overseas for over six years should be entitled to renew their enrolment as eligible overseas electors if they returned to Australia for any length of time within the last three years. Have you had paid any attention to that recommendation?

Mr Dacey—From recollection, we were asked to provide input into what I assume would have been the beginnings of a government response to that report. I have not seen anything recently.

Senator CARR—There has not been a government response to that?

Mr Dacey—I am not sure. It is not something that is within our bailiwick.

Senator CARR—Dr Watt, can you assist me on that matter? Has the government responded to the legal and con committee report *They still call Australia home*?

Senator MURRAY—I think that migration—

Senator CARR—It is not your province?

Mr Dacey—Not that I am aware.

Senator CARR—Mr Campbell, are you able to advise the committee of the commission's view as to the feasibility of such a recommendation?

Mr Campbell—This report was before I came into the commission. I would have to check that. Checking addresses and identities when people are offshore obviously creates some difficulty. I would not like to speculate without looking at the fine detail. I am not across that report.

Senator CARR—Would you be prepared to take that on notice?

Mr Campbell—Sure.

Senator CARR—I would be interested to know the commission's view as to how adequate the current arrangements are and how satisfied the commission is in ensuring that Australians who are overseas are able to participate in Australian elections. How adequate are those arrangements?

Mr Campbell—We will come at it from how we administer the act, of course. Given that we do not know—indeed, Foreign Affairs do not know either—where a lot of Australians are, we will come at it from the point of view of our experience of where we know eligible Australian voters are.

Senator CARR—That is exactly right—in terms of complaints and in terms of existing administrative arrangements.

Mr Campbell—Yes.

Senator CARR—I do not expect you to comment on what the government's policy is. I want to know what the commission's experience is of this particular provision. Thank you very much.

Dr Watt—Just a point of clarification: without wishing to cut across Senator Murray's intervention, I have been advised that it might be an Attorney-General's response in relation to that report, in case you wish to pursue it.

Senator CARR—Thank you very much.

Senator CAROL BROWN—I came in a bit late, so if this question has been asked just let me know. With regard to the proposal in the Electoral and Referendum Amendment (Electoral Integrity and Other Measures) Bill for the closure of the rolls for most members of the public at 8 pm on the day of the issue of the writs, what will happen if an 18-year-old comes into one of your divisional offices a couple of days later and asks to enrol?

Mr Campbell—Their enrolment card would be taken, but they would not be eligible to vote at the election.

Senator CAROL BROWN—What will you be doing with that enrolment card?

Mr Dacey—We would be enrolling that elector but advising that elector that they cannot vote in that election.

Senator CAROL BROWN—So you are going to process their enrolment card and employ all the normal measures that you would do?

Mr Dacey—That is correct.

Senator CAROL BROWN—So there will be, realistically, no change your workload.

Mr Dacey—Even with the seven-day close of rolls we still process enrolments that come in after that period, obviously because the roll has to be as accurate as it can be at any time for subsequent state or local government elections.

Senator CAROL BROWN—I understand that. When we had a discussion about the bill, one of the justifications put forward was that it would alleviate some workload. It appears that you will be continuing with that work.

Mr Campbell—It is a slightly different issue: it is the time in which the work has to be undertaken. In 2004 we processed 423,000 forms in the seven days plus about 2½ days, because we gave another two days for staff to do that before we closed off our own processing so we could print the certified lists and get them ready for the election. So, in effect, it is a workload over a short period of time. All of those enrolment cards will still be processed. But I think what was being said at that time was how much the commission had to do in that short period of time after the issue of the writs.

Senator CAROL BROWN—So you will put them to one side.

Mr Dacey—They may be put to one side for some period of days, but not longer. In our normal course of events they would still be processed before the election.

Senator CAROL BROWN—I would have thought so. I have a question about your education programs and the ones that you will be putting in place after what I suppose will be the passing of the legislation, as I do not believe it will be change. How are you going to measure the success of those education programs that will be designed to have people updating their electoral information as they move and to have new people enrol?

Mr Campbell—That will be part of the design. It is probably fair to say that in the past we have not been as good as we would have liked in evaluating how our campaigns have been going, so part of their actual design now is to have a fully fledged evaluation or review process. But on the fine details you asked me about, I go back to the discussion I had with Senator Faulkner and Senator Carr earlier: until we design what we are doing it is pretty hard to say how we are going to design the evaluation.

Senator CAROL BROWN—I was not here for that section, so I will just ask this question. From memory, there were about 78,000 new enrolments during the seven-day period last time. If we could expect about the same sort of figure for the next election, will you be keeping information and details about people who come in and enrol within the seven-day period but who miss out on voting? Will you be keeping that sort of information?

Mr Campbell—We can tell at any time the number of enrolment cards we have received on any day. We know the number that came in after the seven days in 2004 and 2001, and we will know the number that will come in after the various days in 2007. Yes, will have that information; I am sure I will be asked for it at the time.

Mr Dacey—Part of our strategy—the term ‘campaign strategy’ was used before for our communication strategy—is to target as best we can people who are eligible as they become eligible; to try to stop the people waiting until they know there is an election in the wind. One of the aims will be to target and get enrolments from people as they become eligible to enrol.

Senator CAROL BROWN—I understand the aim, but I am more interested in how you are going to evaluate the program. But you have answered that.

Senator WEBBER—I want to go back and pick up on a combination of those things. I am from Western Australia. Will the new cut-off for enrolment mean that in remote and regional Western Australia it is an effective cut-off of some days before the 8 pm cut-off? I am sure this has been raised. We have communities that do not get daily mail services and a range of other things. They will not know that there is an election on until it is announced, so they will be disenfranchised. What strategies do you therefore have in place to ensure that you are going to target those people in remote and regional—and particularly Indigenous—communities? Election day being announced will not allow them to enrol.

Mr Campbell—Before you joined us this evening, there was quite a lengthy debate on this issue with Senator Carr. The main point I would pull out of that is that in the past there has been an element of targeting in our campaigns, for example to youths and to Indigenous people. We have had quite a large campaign across the country. This time we are going to have a finer grain of targeting, both geographically and to Indigenous people and people from non-English-speaking backgrounds. We are looking—and we do have the figures—by division for all the new enrollees they did in 2004 and the change of enrolment details in the seven days in 2004. That tells us some very interesting things. We have a focus group and we

are doing research to see how we can tackle that. I understand the point you are making. It is not only in Western Australia; there are a number of rural divisions that have quite dispersed populations. We have to get to them.

Senator WEBBER—We are in the unique position—I am sure Senator Murray will verify that—of having a large number of very small communities. Our communities tend to be a lot smaller than, say, in Queensland or elsewhere.

Senator MURRAY—And very distant.

Senator WEBBER—Yes; very distant and with a lack of ability to communicate. How is a focus group going to pick them up? It is not going to give you any feedback on how they would respond to your education.

Mr Campbell—As I mentioned, the focus groups we are running this week—we are actually doing this week and next week—are in cities and in regional SA, but they are certainly not out in that area now. But we will be going to those. We will also be going to those divisions that have high numbers of people from non-English-speaking backgrounds, because that is an issue as well. The bill has not yet passed the parliament, so the part of the debate I had with your colleagues earlier is how far we can go before the bill passes the parliament. Most of the money is allocated for next financial year and the year after. In effect, we are conscious of the need to be far more finely tuned in our targeting, and we have to accept that to address the problems you are talking about.

Mr Dacey—We have in the past in remote and rural areas particularly in the west and the northern parts of South Australia and the Territory and north-western Queensland put particular strategies in place where we employ Indigenous field officers who go out well in advance of when an election is expected to encourage enrolments and to educate people and getting the message across in those ways.

Senator WEBBER—In the good old days you used to have them on board permanently so there was not going to be this logjam—

Mr Dacey—That was pre-1996.

Senator WEBBER—Yes, those communities were not disenfranchised. I would not have the concerns perhaps that I have about the current piece of legislation if that regime were still in place.

Mr Dacey—I think that for the last election and the election before we had people in those communities out there about eight to 12 weeks prior to election.

Senator WEBBER—It does not show a great deal of knowledge or sensitivity to the way a lot of those communities operate. They are highly mobile and difficult to track down.

Mr Dacey—We understand that. The difficulty in not knowing the election date is when to get the people out there, but we will be looking at strategies to target continuously from next year—

Senator WEBBER—Exactly. That is the concern about the legislation. But that is not your issue; that is more Senator Colbeck's issue. It is a concern.

CHAIR—There being no further questions of the Australian Electoral Commission—

Senator COLBECK—Just before we move on, there has been some discussion about the protocol between the Australian Electoral Commission and the Department of Finance and Administration, which governs their interaction on electoral matters. I draw your attention to the tabled letter from Senator Abetz to Senator Faulkner in 2002 in relation to that matter. It might help the committee.

CHAIR—I thank Mr Campbell and all the officers again for their marvellous assistance to the committee.

Committee adjourned at 8.17 pm