



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ENVIRONMENT, COMMUNICATION, INFORMATION
TECHNOLOGY AND THE ARTS LEGISLATION

Consideration of Budget Estimates

WEDNESDAY, 6 JUNE 2001

CANBERRA

BY AUTHORITY OF THE SENATE

SENATE

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

Wednesday, 6 June 2001

Members: Senator Eggleston (*Chair*), Senators Bartlett, Bishop, Bolkus, Calvert and Tchen

Senators in attendance: Senators Alston, Bishop, Calvert, Eggleston, Faulkner, Lundy, Schacht, Tchen, and Tierney

Committee met at 9.11 a.m.

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

In Attendance

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

Dr Ian Watt, Portfolio Secretary

Mr Arthur Blewitt, Chief General Manager, Corporate and Coordination

Ms Jennifer Gale, Chief Finance Officer

Mr Colin Roberts, Manager, Information Systems and Services

Arts

National Gallery of Australia

Dr Brian Kennedy, Director

Mr Alan Froud, Deputy Director

Australia Council

Mr Ben Strout, A/g Chief Executive Officer

Mr John Wicks, Executive Director, Finance & Services

Australian Film Commission

Mr Kim Dalton, Chief Executive Officer

Australian Film Finance Corporation

Ms Catriona Hughes, Chief Executive Officer

Department—Arts

Dr Alan Stretton, A/g Executive Director, Arts

Mr Les Neilson, General Manager, Arts Branch

Ms Karen Gosling, A/g General Manager, Cultural Development Branch

Ms Megan Morris, General Manager, Film & New Media Branch

Ms Rhonda Thorpe, Assistant General Manager, Federation Fund

Outcome 1—A rich and stimulating cultural environment

Output 1.2—National Council for the Centenary of Federation

Mr James Barr, General Manager

**National Museum of Australia and Australian Institute of Aboriginal and Torres Strait
Islander Studies**

Mr Darryl McIntyre, General Manager, Children's Programs and Content Services

Ms Freda Hanley, General Manager, Collections & Operations

Information Technology**Outcome 2—Competitive and effective communications and information technology industries and services****Output 2.1—ID, BITS**

Mr Michael Sutton, GM, IT Industry Development

Dr David Williamson, General Manager, Networking the Nation

Mr Simon Bryant, General Manager, Regional Communications Policy

Ms Fay Holthuyzen, Executive Director, Communications

Outcome 3—Australians value science and technology's contribution to our culture and economic prosperity**Outcome 5—Sustainable and effective e-commerce and online activity, and an internationally competitive information economy****Output 5.1-5.2—National Office for the Information Economy****Output 5.3—Government online**

John Rimmer, NOIE CEO

Tim Field, Government Online

Mr Keith Besgrove, Business & Community Online

Ashley Cross, Business & Community Online

Tom Dale, Business & Community Online

Simon Pelling, Business & Community Online

CHAIR—This is the public hearing of the Senate Environment, Communications, Information Technology and the Arts Legislation Committee considering the budget estimates. On 22 May 2001 the Senate referred to the committee particulars of proposed expenditure in respect of the year ending 30 June 2002 in the portfolio areas of Communications, Information Technology and the Arts. The committee is required to report to the Senate on 20 June 2001. Answers to questions placed on notice should be received by the committee no later than 13 July 2001. I welcome the minister, Senator the Hon. Richard Alston, and officers from the Communications, Information Technology and the Arts portfolio. Minister, would you like to make any opening remarks?

Senator Alston—No, thank you, Mr Chairman.

CHAIR—Departmental officers, I do inform the committee, should not be asked to comment on the reasons for policy decisions or the advice they may have tendered in the formulation of policy or to express a personal opinion on matters policy. The committee will begin with the arts section of the portfolio, followed by information technology, and conclude tomorrow with the communications programs. I will call agencies as per the agenda, beginning with the National Gallery of Australia, and welcome Dr Brian Kennedy and Mr Alan Froud to the table.

National Gallery of Australia

Senator Alston—Does that mean we are going to take the morning for arts, and then IT after lunch; is that right?

CHAIR—Yes. Hopefully we will not take the whole morning, because Dr Kennedy has to travel.

Senator Alston—No.

Senator MARK BISHOP—Before Senator Schacht starts, Chairman, what day did you say was the close date for questions on notice?

Senator SCHACHT—Friday, 13 July, to reply.

Senator MARK BISHOP—To have the replies by.

Senator SCHACHT—I have other questions out of the hearing because of time shortage: can I have to the close of business to put further questions on notice from this hearing?

CHAIR—Certainly, Senator Schacht, we are more than happy to accommodate you.

Senator SCHACHT—To close of business on Friday?

CHAIR—Certainly

Senator SCHACHT—Thank you.

CHAIR—Senator Schacht.

Senator SCHACHT—Before I ask a series of questions of the minister and Dr Kennedy, I make it clear that as a strong supporter of the institution of the National Gallery of Australia, these questions I am asking are not in any way to denigrate the standing of the National Gallery of Australia. But estimates do require some reasonable questions about management practices and financial arrangements at the gallery, and they are asked in that context. I do not believe that they are asked in a way that does any damage to the standing of the gallery as our major institution in Australia and internationally. In fact, I hope the questions and answers will further enable the gallery's standing to be enhanced.

Nevertheless, Minister, my first question is: there has been a press report that the board of the gallery, and maybe in consultation with you, is considering extending Dr Kennedy's contract for a further five years when it still has some 18 months to run; have you had communication from the council that there are negotiations with Dr Kennedy for extension of his contract?

Senator Alston—No, I am not aware of that. The board obviously has a lot of discussions about issues and can make a number of decisions that it does not need to communicate to the government or seek our input on.

Senator SCHACHT—Whenever the appointment of any director of the National Gallery takes place, at some stage closer to the deadline, you might say, of when the new term has to start or someone has to be appointed, there will be a consultation between the board and the government?

Senator Alston—That would be the normal procedure, yes.

Senator SCHACHT—No discussions have yet taken place?

Senator Alston—No.

Senator SCHACHT—Dr Kennedy, have you had any discussions with the board about an extension of your existing contract?

Dr Kennedy—With the board, no.

Senator SCHACHT—With the chairman?

Dr Kennedy—There is an ongoing interest in the continuity of management of the gallery and therefore from time to time there can be discussions about such issues.

Senator SCHACHT—Being from the Labor Party we are in favour of security of employment for most workers in Australia.

Dr Kennedy—Thank you.

Senator SCHACHT—It is not unusual that we would see that someone would want to ensure continuation of employment—it is only natural. Do you expect to have the matter clarified with the board by the end of this year of whether there will be an extension offered to you?

Dr Kennedy—That is a matter for the board, Senator.

Senator SCHACHT—Has the board appointed a subcommittee of itself to—

Senator Alston—I point out that the decision is ultimately that of the government so, strictly speaking, there would be no obligation on us to consult the board nor would there be any necessity for the board itself to even consider the matter. Having said that, there may well be informal discussions, as there always are, about a whole range of issues, but I do not think it is fair to suggest to Dr Kennedy or, through him, to the board that somehow these are matters that need to be addressed or are under active consideration because, at the end of the day, whatever discussions they might have are ultimately not decisive.

Senator SCHACHT—I was going to come back to that because I thought that was the case under the act. I have no argument about the right of the government to appoint such a senior position and I would not favour any change to removing that from the purview of the minister of the day responsible to the parliament. But, Minister, you said you would expect in normal good process to have at least some discussion with the board at some stage or they would let a view be known to you and the government just in reasonable process, I would have thought, irrespective of whether you take any notice of it or not.

Senator Alston—I would not say I would necessarily expect a formal consideration of the matter by the board. All I am saying is: you do run into board members, you meet with the chairman from time to time; a range of issues come up. It might even be simply in the context of responding to some speculation in the media. So it is not right to proceed on the basis that either there have been, will be or should be, discussions between Dr Kennedy and the board or within the board itself.

Senator SCHACHT—In view of the government's position which has allowed that the government makes the appointment, with any—not just Dr Kennedy's—position, would the view be that, closer to when the present contract is getting close to running its five year term, you would consider an option of calling for applications through a public process of advertising for the position as well as discussing directly with Dr Kennedy whether he is interested in continuing. Those are the options you have before you.

Senator Alston—Ultimately, we would have the best interests of the gallery and the impact that it has on Australian life foremost in mind, so we may well have discussions from time to time with a range of people who are interested in that and other issues.

Senator SCHACHT—Minister, you do not expect, with the time still to run in the contract, that you would see it necessary to consider the matter of the appointment for the next term before the election is held at the end of this year at the latest?

Senator Alston—You cannot put time lines on these things or rule something in or out. Appointments of this significance do require, it is fair to say, a reasonable lead time. It is a rarefied atmosphere that Dr Kennedy and his counterparts operate in and, clearly, you need to be aware of all of the options. Just as we took quite a while to get to the point of being able to appoint Dr Kennedy—and we did go through some rigorous processes; we had to bring him

out to Australia for an interview, along with at least one other candidate—you would assume that any future consideration of the matter would also require a reasonable time frame. So I do not think it makes sense to try to quarantine the issue to any particular time point.

Senator SCHACHT—I appreciate that—good management and timing. As we get closer to the election, and with the contract for the position still to run well in to next year, it might be seen by some as unnecessary haste if some action was suddenly taken on the matter to either appoint or not to reappoint Dr Kennedy, but I take note of what you have said. I presume that in any of these areas, if Dr Kennedy is to be reappointed, issues of the performance bonus as part of the salary package would be one of the considerations that would be looked at.

Senator Alston—In relation to what?

Senator SCHACHT—The overall salary package. There might be consideration given to a performance bonus within the total package.

Senator Alston—You mean there is not one now and there should be?

Senator SCHACHT—No. I am wondering whether that would be a consideration that you and the government would look at.

Senator Alston—I do not know whether there is a—

Senator SCHACHT—Neither do I actually.

Senator Alston—It is a matter for the Remuneration Tribunal.

Senator SCHACHT—That sets the salary. Can the government, on top of that, pay a performance bonus without contravention of the Remuneration Tribunal decision?

Senator Alston—The package is one initially put together by the government, but then approved by the Remuneration Tribunal. That package can include performance pay. But I am not sure that is a particularly relevant issue going forward. As far as I am concerned, if you look at the past, Dr Kennedy has performed very well in a range of areas. Obviously, if there is a performance pay issue that arises in respect of the past, we will obviously consider that. Going forward, we would simply be wanting to ensure that we had the best person for the job.

Senator SCHACHT—Of course. Moving on from that issue, I want to talk about the budget papers for the National Gallery and the previous evidence given to the estimates. On page 307 of the PBS, it says:

The National Gallery of Australia will invest \$42.9 million on building refurbishment and enhancement. The Government will provide a loan of \$20.7 million over two years commencing in 2002-03 to assist the Gallery in financing this initiative. The building works will improve the environment for the storage and display of the national collection of artworks and provide a safer more accessible environment to encourage understanding, knowledge and enjoyment of the visual arts.

In the estimates hearing in May last year, Senator Lundy and I asked questions on the priority given to the airconditioning maintenance and upgrade. Dr Kennedy, you said that this was an integral part of an overall scheme which is a \$20 million scheme. We have this overall scheme that is now up to \$43 million. How much of the \$43 million is being set aside to upgrade the airconditioning, which, by previous evidence given, might well be described as having a fair number of problems, as we have been through, and possibly needing complete renovation or revamping after a life of more than 20 years?

Dr Kennedy—Senator, I did make the statement that the airconditioning system had to be attended to as a matter of urgency, and it is being so attended. The total cost, it is estimated at

the present time, of the required upgrade of the gallery's airconditioning plant is in excess of \$2.8 million. There is considerable ongoing work that is taking place at the present time.

Senator SCHACHT—Is the \$2.8 million upgrade of the airconditioning part of the \$43 million?

Dr Kennedy—Yes.

Senator SCHACHT—It is in the \$43 million?

Dr Kennedy—Yes.

Senator SCHACHT—Can you explain why last year—I know plans keep evolving and situations change—you mentioned that the overall scheme for the gallery was looking at costing about \$20 million and it is now in the budget papers up to \$42.9 million? What has been the change in the plans that has increased the budget by a value of a further \$23 million?

Dr Kennedy—You focused on it, Senator, when you said that the plans are continually evolving. We have been involved in a master planning process with the selected architects, Tonkin Zulaikhka Greer, and in sync with the parliamentary zone plan which was being developed and was then published last year. The consequence of being able to master plan—as, indeed, has been recommended by a number of people—is that we were able to view what would be the long-term aims for the gallery and to seek to devise a program which would give the most benefit to the gallery while providing the minimum impact in terms of time and pressure on staff and on program. The total of the master planning process gave rise to \$69 million. We sought to do as much as possible in the first stage, and we were pleased that in the budget announcement it was declared that it was stage 1 of a process and that that process would lead to \$43 million being spent in the first stage. It is obviously a bigger scheme than had previously been planned.

Senator SCHACHT—Over what number of years will the \$43 million be spent?

Dr Kennedy—I can ask Mr Froud to give you the details of that.

Mr Froud—Senator, the intention is that the expenditure would be spread principally over three years. It will be three to four years, but principally three years.

Senator SCHACHT—So by the end of the financial year ending June 2004, which is three years from this year, the money will have been spent.

Mr Froud—Yes, that is the plan at this point.

Senator SCHACHT—Can you give me—and you might want to take it on notice for more detail if you want to—the break-up. We have got \$2.8 million for the airconditioning upgrade. That leaves about another \$40 million. What was the rest of the \$40 million going to be spent over the next three years?

Dr Kennedy—There are obviously schedules being devised consistently with quantity surveyors for the scheme, Senator, and it probably would be best to take that on notice, because we do not wish to give you figures today which will change again.

Senator SCHACHT—I would very much appreciate that approach, Dr Kennedy. I notice in the budget paper it says that the government will provide a loan of \$20.7 million over two years, commencing in 2002-03, which is the last year of your three-year program. Of the \$43 million, \$20.7 million will come as part of a loan which you will have to repay; is that correct?

Dr Kennedy—Yes.

Senator SCHACHT—Do you have any indication from the bean counters and Finance of how long they are going to let you have to repay the \$20 million?

Dr Kennedy—Yes.

Senator SCHACHT—How long is that?

Dr Kennedy—Eight years.

Senator SCHACHT—They are going to charge you the normal bond rate or something on the interest, I presume?

Dr Kennedy—Plus one per cent.

Senator SCHACHT—Are you going to be able to service the loan and repay it because of the increased income from people attending the gallery and commercial activities, or are you going to do it out of further budget allocations that come through in the annual appropriation? How will you fund the repayment?

Mr Froud—Senator, principally the repayment will be met out of the total resources that the gallery has available, which will be a combination of both, but principally from the budget appropriations, given the changed arrangements—with the changed accounting arrangements from 1999-2000, with accrual accounting, depreciation from the building, et cetera. That is essentially the funding.

Senator SCHACHT—I now see. In effect, what is happening is that you have been given the advantage of having forward appropriations over the next eight years brought forward for three years? That is correct, is it?

Mr Froud—Senator, I wonder if I just clarify it: the eight-year repayment period commences in 2003-04.

Senator SCHACHT—So you have to 2011 to pay it back?

Mr Froud—Yes, actually it might be 2004-05.

Senator SCHACHT—During those eight years, as you get your annual appropriation, whatever that may be, you are confident you will then, out of that appropriation, make the annual repayments plus interest on the \$20.7 million?

Mr Froud—Correct, along with the revenue that we generate from our own activity.

Senator SCHACHT—Along with the revenue you generate.

Mr Froud—Of course, yes.

Senator SCHACHT—Fine. Dr Kennedy, I have to say that that is a very generous loan arrangement that many small businesses in Australia would like to be able to strike with their bank as well. You will take on notice how the \$43 million is going to be spent. Dr Kennedy, I have never seen such an artistic debate about a front door of any building in Australia that has been taking place, to put it in the crude non-architectural sense that I have, but how much are we going to spend on what appeared in last Saturday's *Sydney Morning Herald*, a drawing of the new front for the building? How much is that going to be out of the \$43 million?

Dr Kennedy—As I said, Senator, we would like to provide you with that precise figure on notice.

Senator SCHACHT—Thank you very much. What consultations, Dr Kennedy, have you had direct with the original architect of the art gallery, Mr Madigan, who has expressed publicly some disquiet about his original vision being amended without, he claims, consultation? Have you had consultation with him since?

Dr Kennedy—I have had an extensive relationship with Colin Madigan in that very early on, in fact very quickly after my appointment, he wrote to me to declare himself as the architect of the gallery and to introduce himself. In fact, I have only recently written to him again to state the level of the correspondence which exists, the extent of my personal belief in the importance of the building and its architectural strength. The issue of the elevation plan that appears in the newspaper raises the challenge of going through a process where there is tremendous interest. But it is an evolving process, as you said, Senator, and therefore, working with the architects, we are not in a position to say, 'This is what we are going to do' until we have completed the designs. The situation changed on 1 January this year, Senator, with the introduction of moral rights legislation, which brought specific responsibilities which the gallery is exercising. But there has been an extensive correspondence with Mr Madigan, for whom I have the height of respect.

Senator SCHACHT—After consultation with Mr Madigan, will you provide copies of that correspondence to the estimates committee?

Dr Kennedy—Certainly, I will consult with him and, if that is agreeable to him, I would be delighted to provide it.

Senator SCHACHT—Because of the moral rights legislation, obviously Mr Madigan has some rights legally to preserve the integrity of his artistic work.

Dr Kennedy—No, Senator. The moral rights legislation is quite specific in what it says and the obligations that it makes upon the gallery. There is a key issue here: some architects believe that the moral rights legislation should have gone further than it does; that it should have a provision that the change or amendment of a building should not take place without the approval of the original architect; and that the level of consultation is in the second dictionary meaning, as opposed to the first, of informing, and the second of seeking approval. This is contentious; it is not the law at the current moment. What is important and essential in an artistic institution is that discussions in such matters would be in good faith and would be regarded as genuine and meaningful. We are undertaking a formal meeting with Mr Madigan and people that he has requested should attend that meeting. I am going to be away for two weeks, but I have indicated to Mr Madigan that I would be pleased to meet with him again.

Senator SCHACHT—I think that would be a very wise management practice to do that. I draw your attention to some articles that have appeared in the press on this matter comparing the way the Sydney Opera House has sought and consulted with Joern Utzon and his son about the way in which any renovation of the Sydney Opera House is going to be done after the fullest possible consultation and agreement with Joern Utzon. I suspect that may be an example from which the management of the gallery could see that this can be effectively done without an unseemly artistic brawl occurring that does nobody any good.

Dr Kennedy—Senator, it is really challenging to take one example and compare it with another. In the particular case of Mr Utzon, he left in some disagreement, whereas Mr Madigan has been highly praised for his building from the profession and by the community.

Senator SCHACHT—I draw that to your attention. Thank you for that.

Dr Kennedy—Sorry, Senator, but I really would like to make one more point on this issue. As you know, we are in the national parliamentary zone and, because of that and only because that, we have had constrictions upon us in terms of the process which involves this parliament and, at first stage, which involves the National Capital Authority. It is in our interests to be as

public as possible in promoting artistic developments, and therefore those constraints have limited us somewhat.

Senator SCHACHT—You have to attend before the joint committee on the ACT and the parliamentary precinct to explain your position. Good luck.

Dr Kennedy—We have responsibility, Senator, as you can well imagine, to make sure that we do nothing which the parliament could regard as prejudicing it.

Senator SCHACHT—Of course. One other matter on this area: how much did you spend on international advertising to find an architect for this project?

Dr Kennedy—We have to take that on notice, Senator. It was important to—

Senator SCHACHT—That is fine. Another question: have you appointed an international architect? You have advertised to find an architect internationally on this project; have you found one?

Dr Kennedy—No, it is an Australian architectural firm.

Senator SCHACHT—A firm has been appointed?

Dr Kennedy—For the gallery?

Senator SCHACHT—Yes. For the project.

Dr Kennedy—Yes, Senator.

Senator SCHACHT—You advertised internationally, but as a result the best application came from an Australian firm which has been appointed.

Dr Kennedy—The selected firm is an Australian firm.

Senator SCHACHT—You will provide how much you spent internationally. I am not against international advertising.

Dr Kennedy—It was very modest, Senator, I can assure you, but we will provide you with the figure.

Senator SCHACHT—I look forward to you getting further information about your consultations with Mr Madigan and that this matter is successfully put behind us.

The next matter I want to raise with you, Dr Kennedy, is the issue of attendance at the gallery. It was said in the *Sydney Morning Herald* last weekend that while other museums have seen huge increases in attendance when attendance charges have been dropped, the NGA attendance figures actually dropped in August 1998 to its smallest figures for 12 years. The attendance figures are going down. Do you find that strange that, despite dropping the charges, the attendance figures have gone down?

Dr Kennedy—Senator, that article—

Senator SCHACHT—You might say the article is wrong anyway; I give you an opportunity to clarify that.

Dr Kennedy—Yes. Senator, if we provide you with the chart which shows the attendance at the gallery, you will see that it is made up of a number of components. Within the gallery itself, it is made up of those who visit the permanent collection and those who visit major exhibitions and may also see the permanent collection. These two figures combined give the total within Canberra. Externally, we have got travelling exhibitions, which are identified separately, around the country, and then, if there are international shows, that figure is also identified. It is also possible for us to identify further, as has been suggested by some critics

that we have already included them and we have not, those attendances at exhibitions which have largely been of material from the National Gallery.

To answer your question specifically: in the year after the removal of the admission charge to the general collection, we had a huge visitation at temporary exhibitions. The number of people attending the temporary exhibitions we can also define that many of those would have seen the permanent collection. But we can identify the number of people attending the permanent collection as the people who generally went to see the temporary exhibitions.

Senator SCHACHT—But they are not counted twice, are they?

Dr Kennedy—No, they are not counted twice. Therefore, we had a decline in the permanent collection on the basis of those figures, but we had a rise in the total visitation on the basis of the temporary exhibition figures. We will provide you with the flow chart, Senator, if you wish, and that will make it obvious.

Senator SCHACHT—One of the things I wanted to raise is about attracting ongoing patronage from the public to attend and the need to provide plenty of information about the forward programming of exhibitions, et cetera. I am told that the National Gallery in Washington, for example, publishes a five-year plan on the Internet. Does the National Gallery of Australia publish a five-year program of exhibitions? Do they make it available so that it is easier for people to plan for holidays, or they can see one coming up and they can plan a special trip to Canberra from Sydney, Melbourne, Adelaide?

Dr Kennedy—Our tradition, Senator, has been to produce a brochure on an annual basis which identifies the exhibitions which are forthcoming, and that seems to serve our public well. But it is indeed true that galleries internationally—and again, comparisons are difficult because circumstances are very different—publish an extended program for the future. We have noted your comments, Senator, and the comments of other people as to whether or not it is desirable to change what has been a marketing strategy to advertise up to a year in advance. We are reviewing that in light of those comments, Senator. We will be making available a program to 2004, which is actually in-house anyway, and publishing that.

Senator SCHACHT—That leads me on to a broader issue that has had some publicity as a result of the publishing of answers from previous estimates hearings where the gallery has clearly modified some of its answers or pointed out that, at the very least you might say, there were errors in answers previously given. I have been through this material and find at least over a dozen examples of where previously misleading information has been given to the estimates. I do not find that a hanging offence.

In an estimates hearing initially people should be given every opportunity to correct what they say and provide further information. I do not expect people to have all the answers at the table when we ask them. But I have to say, Dr Kennedy, the list of matters that I have subsequently identified is a little disturbing, to use that phrase. I have got about 14 of these. I am not going to have time to go one by one through each of these examples in the time that we have available at estimates but, if I do not get through them all, I will put further questions on notice to you in writing about this.

Dr Kennedy—Senator, given your opening remarks about the National Gallery, it would be important for us to have identified potentially a very damaging statement on the gallery where you say that there are up to a dozen instances of us misleading the Senate estimates committee.

Senator SCHACHT—Just let me give you some examples. In a letter to a member of a public forum, you claimed to have doubled travelling exhibition and loans, which was first noted in writing. You also claimed significant increases in gallery merchandising and revenue from commercial activities. But the revenue from commercial activities, as reported in the annual reports, was: in 1995-1996, \$6.5 million; in 1996-1997, \$4.7 million; in 1997-1998, \$4.3 million; in 1998-1999 \$2.8 million; in 1999-2000, \$6.5 million, which is a dramatic increase. So in 1999-2000 we only got revenue back to the figure that it was in 1995-1996 before you were the director. I am not going to say it is an outright untruth, but those answers you sometimes give do give a misleading impression of what has been going on.

You took great offence at the February hearings when I raised the issue of Mr McDonald's accusation that your figures are rubbery in these areas. I have to say that there is at least some evidence to say that the figures are probably rubbery in what you initially had said.

Senator Alston—Senator Schacht, in view of the gravity of your allegation—I did not precisely hear you say there were at least 12 instances where misleading information has been provided but, if that is the case, then the record should be allowed to speak for itself. It is not merely satisfactory for you in a scattergun way to throw a few things on the table, hope that Dr Kennedy can respond to a few of them, and you may well leave a lot of stuff unsaid or undealt with. I think it would be much fairer to all concerned, if you want to make those sorts of comprehensive statements, that you should be precise in your allegations and give Dr Kennedy a considered opportunity to respond to them and then we can let others make a judgment. It is not helpful to make a few gratuitous statements on the way through.

Senator SCHACHT—Minister, that is why I said very carefully 'in the time available'—with all the other estimates of other art bodies. I did not accuse the gallery of deliberately misleading the Senate. I said that in a number of the answers given there are now questions raised about the accuracy of what was said. I want to give the gallery every opportunity. My problem is now, and for my other colleagues here at the hearing, to go through what I have identified as 14 examples. Some of them are not in any way, I might say, hanging offences of deliberately misleading in any way; I want them clarified.

What I will do, if I do not have a chance to go through them because of the lack of time here today, is put the information back to you on notice so that you can respond and clarify further. But there is no doubt that on some issues, at the very least, by omission—what has not been said in estimates or provided to a series of questions over the last 18 months that I and Senator Lundy and others have asked—there are still areas to be clarified. I will go no further than that.

Senator Alston—Can I suggest to you that, as we all know in this game, you normally get the answers to the question you asked, not to the question you would like to have asked or one, with hindsight, you wished you had expanded on. If you want to put precise questions down and get some answers from Dr Kennedy and you do not think they go far enough, then you can have another go, you can come back ask further questions.

Senator SCHACHT—That is exactly what I said.

Senator Alston—But I do not think it is not helpful for you to make an upfront assessment that you have looked at certain material, whilst the answers might be technically accurate, you think it is a bit misleading but not a hanging offence. That is all innuendo and a generalised slur which I do not think you should not be making. You should wait until you have got your answers and then we can debate it. If you do not think they have gone far enough, it normally is the fault of the questioner, not the answerer. I remember Mr Tanner tried this one on the *7.30 Report* some months ago and got ridiculed.

Senator SCHACHT—Can I just give you an example. At a previous hearing I asked about the termination of a former employee, a Ms Jane Douglas. When I asked about what was the cost of her termination and settlement, I was told that that could not be provided because of confidentiality and so on. Subsequently, Ms Douglas has informed me that that confidentiality agreement was imposed on her by the gallery. She never sought a confidentiality agreement but in the agreement she accepted to get a payment, that was put on by the gallery.

Senator Alston—It was a term of the agreement that the settlement remain confidential, and you are criticising the gallery—

Senator SCHACHT—But when we asked the question the very clear impression was given that Ms Douglas had sought the confidentiality—

Senator Alston—No, that is what you might have assumed—

Senator SCHACHT—No. That was one issue. I do not think Ms Douglas has any problem in having the gallery provide information as to what was her payout in termination of the matters that she had in dispute with the gallery.

Senator Alston—There are two separate issues here. One is whether she has a privilege that needs to be protected, whether she has privacy rights. For example—this is entirely hypothetical—on the one hand she may not want to disclose the fact that she got a very, very generous payout; on the other hand, she might be embarrassed that the payout was so little. So there may be good reasons why, in her interests, the matter not be disclosed. But that is not the same thing as a claim of commercial-in-confidence. Commercial-in-confidence does not affect her; it affects the gallery because the gallery is dealing with a number of other employees, with a number of others that it may wish to recruit, and it does not want to be put in a position of people saying, ‘You paid X so much and I should therefore get a similar figure,’ when you cannot possibly make an accurate comparison of the performance of those two people. It is not right to suggest that, because she would be happy to make it public, the gallery is somehow acting improperly in insisting on a commercial-in-confidence. After all, she accepted it and she gets a benefit from accepting it, presumably, because otherwise she might not have got the arrangement that she got.

Senator SCHACHT—On another aspect; I put a question on notice to Dr Kennedy asking ‘Did you receive any offer from or request by Ms Douglas to discuss the termination, and what was your response?’ The reply was ‘There is no recollection of receiving such an offer. A search of gallery files does not reveal evidence of such an offer.’ Yet I have been given two letters. One is from Ms Douglas’s lawyer to you, Dr Kennedy, shortly after her sacking in 1997, stating:

Ms Douglas would welcome the opportunity to discuss with you her time at the gallery and the events surrounding her termination.

A response, bearing your signature, advises Ms Douglas’s lawyer that:

I have considered your request and unfortunately I do not consider it appropriate that I meet with Ms Douglas to discuss matters about the gallery administration or her termination and management of the gallery.

I accept that at the hearing Dr Kennedy might not have been able to recollect that there had been correspondence on this matter but, clearly, there is correspondence and Ms Douglas did make the offer to discuss her time at the gallery which, in writing, was refused. I asked specifically, got a different answer, whether, on notice, something had not been recollected; I do not know.

Dr Kennedy—Senator, I would like to respond to that because I appreciate you raising that sort of issue. It shows two things: one, I had no recollection; and, as you are aware, Jane Douglas did not work at the National Gallery of Australia at any time while I have been Director. I did not recollect but if it is the case that in our trawl of files we did not retrieve such a letter, that we failed to provide notice of such a letter or it is not on our files and it should be, I will have to investigate that. I appreciate it being brought to our attention from a record-keeping point of view.

Senator SCHACHT—Thank you. I am not saying that these are deliberately misleading the estimates. I want to go through where people have records and have provided them to me and other senators so that the matter can be clarified. Again, I accept that from time to time all of us err and cannot recollect or there has been a mistake in administration about it, but they ought to be clarified. We did actually ask the question initially; got one answer. There seems to be evidence that the answer should be now adjusted.

Dr Kennedy—Senator, with that and all other issues, we will gladly do that. However, I would say that it is important that it is distinguished between the timing of a question and the answer and the timing of another question and its answer, because there have been two years difference, for example, in certain matters that have been raised that is possibly misleading. It could be a difference in terms of wording, which has been the case with some figures actually given to the Senate where we could say that we have doubled an exhibition program from one year to another, and we did; however, that was not the doubling of loans or a doubling of venues. So therefore it could be misleading if it was thought that one thing means another but, as the minister has said, we have tried to be specific. Where our language is not specific enough and having declared an accountability and a belief in transparency, and predicating our whole plan of the last number of years on serving the public first, if we are not perfect, we strive to be. We find it difficult, like everybody else, but we will correct anything that needs to be corrected. However, there has never been, as you gladly say to us, an intention to mislead and I do not believe that—

Senator SCHACHT—I did not make that accusation; I am very careful about that. I turn now to an issue that has been raised about the operation of the Registrar's office. I put a question last November relating to:

A complaint that official files had been removed from staff work areas by senior officers without being marked out to that office and possibly altered without record being made of the alteration.

The gallery responded:

This question appears to be based on hearsay or a misunderstanding of the facts. Staff of the registration department did send a confidential memorandum to the Director, but the memorandum did not complain of a senior officer removing files or of files being possibly altered without record being made of the alterations. The staff of the department have requested the confidentiality of the memorandum be maintained so it is not appropriate to disclose its contents in full.

When the committee did finally get a copy of the memorandum, it contained the following sentence at the top of page 5:

The removal of files from officers' desks without explanation and their return without explanation or comment contributes to the feeling of mistrust and despondency.

So there clearly was in a document somewhere in the gallery concern by the staff of the registration office. I believe that information qualifies the answer provided to the question on notice I asked last November.

Dr Kennedy—I will ask Mr Froud to clarify that matter. The discussions with registration staff have been extensive. One point I make is that a perception about what is to happen to files can vary. It is in order for someone's boss to decide to have a look at a file if that is necessary for their work. Ideally, there should be communication in that matter, but the person who may have had the file removed, for whatever reason—for consultation, for any purpose—may feel that that was inappropriate. It may have been not the best communication, but it may have been in order. That is a general comment. I ask Mr Froud to answer that specifically.

Mr Froud—Senator, regarding the particular question that you are referring to that relates to the registration department, I believe the answer provided was in fact appropriate to the question. That is my recollection.

Senator SCHACHT—I asked specifically about a complaint that official files had been removed from the staff work areas. The answer was 'This is based on hearsay and misunderstanding of the facts. Then when we get the document, the document actually has a line in it that says unemotionally:

The removal of files from officers' desks without explanation and their return without explanation or comment contributes to the feeling of mistrust and despondency.

I do not think there is any misunderstanding about what was the question first asked, the answer that was first given and now what has come out in the document.

Dr Kennedy—Mr Froud's recollection is that that was not the entire question. We would like to take it on notice, as with other questions that have been in previous estimates where we have been told we did not provide something and we did.

Senator SCHACHT—I would appreciate that. Again, this is hearsay but I give you the chance to correct. Was there any industrial action taken in the last few weeks by staff who work in the registration office of the National Gallery?

Dr Kennedy—This happened in the registration department, they did notify us of a stop-work meeting, and it took place for nine minutes. At that meeting it was agreed to put to management a number of issues which the registration staff wished to be dealt with. I took that as very much a call to deal with issues in the registration department personally which have been raised over a period of time, and it is my belief that it is appropriate for management to manage, but where that is not happening effectively, then the Director must make sure that it does. For the last number of weeks we have had a series of meetings with registration staff. There was already an independent review of registration taking place at the time we got this notification. Added to that, the Deputy Director, the head of Human Resources Management and the General Manager of Collection Services in the gallery—the four most senior people for the area—have been meeting with the registration staff. We believe we have made considerable progress and they have done quite a bit to make it clear that it is our intention to resolve issues in the area.

Senator SCHACHT—Have you recently advertised the position of Registrar?

Dr Kennedy—It is my understanding we have not advertised the position of Registrar, we have advertised the position of Associate Registrar. There is a particular issue about the Registrar's post in that the General Manager, Collection Services has a substantive right in that post and herself has one year to run in her contract. Therefore, if we were advertising the Registrar's post at the moment, we would be advertising for a senior post for one year.

Therefore, we are exploring with a review which is taking place now the options for a resolution of management in the area.

Senator SCHACHT—Does that mean we have a Registrar or we do not have a Registrar?

Dr Kennedy—Yes. There is an Acting Registrar and has been for some time.

Senator SCHACHT—An Acting Registrar at the moment?

Dr Kennedy—Yes.

Senator SCHACHT—The position you have advertised is for Associate Registrar.

Dr Kennedy—Yes, which is the next most senior post in the registration area.

Senator SCHACHT—So the position of Registrar will be left vacant?

Dr Kennedy—No, the position is filled on an acting basis; we have an Acting Registrar.

Senator SCHACHT—The Acting Registrar would be eligible to apply for the Associate Registrar's position.

Dr Kennedy—Indeed; if they so wished.

Senator SCHACHT—What were the number of applications you received for the Associate Registrar's position then?

Dr Kennedy—I will have to take the specific number on notice.

Senator SCHACHT—There is a rumour going around that you received no applications for the position; maybe that is a different position. I have not heard of this Associate Registrar, it sounds like associate professors at universities or something.

Dr Kennedy—Senator, I find it really important not to believe in rumours.

Senator SCHACHT—I know, I absolutely agree, that is why I am happy for you to take it on notice. In May of last year Mr Reece told this committee, regarding maintenance and funding of the airconditioning, 'I can certainly assure you, he is under no pressure in terms of funding. There are adequate funds for the maintenance of those systems.' However, in the memorandum subsequently provided by the gallery in response to advice from your environment officer, she wanted you to look at a work of art which was 'a case in point of the damage being caused by the ongoing deposition of fatty acid and other particulated material from unclean airconditioning duct work.' Again, I do not know the reason but that memorandum, which did seem to provide information, was at variance to what Mr Reece told us in May last year.

Dr Kennedy—Senator, my understanding is that in that being brought to our attention we are talking about information from 1998 when there was a shortage of funds for dealing with maintenance, or for the scale of maintenance which was being recommended at that time—it was ongoing maintenance—but the other material was from the year 2000. The change happened significantly in our budgeting and capacity to deal with matters in that time.

The separate issue of fatty acids is a technical one and we have, as you know, had five reports at this stage on our airconditioning system. We have exhaustively examined the impact of the system in such areas. Some of the technical issues are very technical indeed and there seemed to be a short supply of experts throughout the world who were able to determine the results.

Senator SCHACHT—I appreciate that. I note that the environment officer put that report in. From the document, you told her and your staff:

I am aware you have a bid for money to clean ducts and balance of airflows. The reality is that unless we get additional funding for backlog maintenance, there is no way the work can be funded.

This, of course, is back in 1998-99. Will the \$2.7 million that you mentioned out of the \$43 million be enough money to, once and for all, give us a reasonable opportunity to know that the airconditioning system will be running effectively, and that this ongoing saga will be able to be put behind us for the gallery; that the money you have provided will overcome all these arguments about the maintenance and inefficiency, or whatever want to call it, and dispute in the present airconditioning system? Even though it might be four or five years late, at least we have got the money now and it will be spent in the next year or so, and the airconditioning will no longer be a problem.

Dr Kennedy—I certainly hope so, Senator. You said that I made a remark to the environment officer; that obviously was not me, it was somebody else.

Senator SCHACHT—I am sorry; Mr Reece.

Dr Kennedy—Mr Reece, it was not me. But the situation has changed considerably. The benefit that we have had of the scrutiny of this Senate estimates committee and of the extensive numbers of reports has led to a position where we are now in funds to deal with the matter. My answer is, I certainly hope so.

Senator SCHACHT—The budget of \$2.7 million for the airconditioning maintenance, upgrade, cleaning, whatever you want to call it; that is upgrade of the existing system. Is there anywhere a suggestion that the existing system—though you are upgrading, improving and cleaning it up—may have to be fully replaced at some stage in the intermediate future, that you need a new airconditioning system based on newer technologies than were available in the late seventies when it was put in?

Dr Kennedy—Just to correct the figure, to be precise, I did say in excess of \$2.8 million.

Senator SCHACHT—In excess of \$2.8 million.

Dr Kennedy—That is what I said. The address of the airconditioning system has been ongoing. There has been continuous replacement and improvement of systems. There is no suggestion that the entire system now needs to be replaced and, as I said, we have had exhaustive studies of it. We will continue to investigate these matters and to implement recommendations. I have been pleased that the independent investigator who has been doing ongoing reports on the gallery airconditioning system has reported only just recently that—

Senator SCHACHT—That independent investigator was who?

Dr Kennedy—That is Mr Steve Hennessy of FHA Management, the Hennessy report.

Senator SCHACHT—I want to get it in the records so that when people read it they will know what we are talking about.

Dr Kennedy—Yes. We asked Mr Hennessy to make sure that we delivered on what we said we needed to do in a timely way to address all of these issues. I did say to you, Senator, and to everybody: we will fix it. Mr Hennessy has informed us that there has been extensive progress, that this has been occurring, he felt, certainly optimistically, in a way that was ahead of schedule in most areas. Our staff are to be congratulated for that. On the other hand, it is essential that they do it.

Senator SCHACHT—Mr Froud, in February of this year I asked you about a report by a gallery manager, Mr Cox, concerning an extensive overseas trip he undertook to attend an

indoor air quality conference and visit museums on several continents. You were reluctant to provide the report on the grounds that to do so would breach the confidence of the museum. Mr Cox visited, but you finally agreed to provide it on notice. We have got the copy of the report:

No recommendations were made in the report. However, Mr Cox suggested that the gallery examine its weekend cleaning practices with a view to reducing the cost of weekend services by undertaking essential cleaning only on weekends. Since the report was written the gallery has outsourced its general cleaning and the cleaning contractor adopts an essential cleaning only approach to cleaning on weekends.

I also note that on page 23 of the report you provided the following comment:

The saturation system using recycled water is banned in France.

I suppose that is in the equivalent French museum.

This is the system we have in our building. Water treatment in these systems are essential to minimise the formation of scale and the possibility of bacteria being carried into the airstream. This requires the use of biocide to control the bacteria. This is not considered good practice by many professionals because of the direct contact with the air to be distributed around the building. One can foresee the day when there will have to be millions of dollars spent on our airconditioning system to overcome the problems associated with our system.

That is from Mr Cox's report. Do you believe that in excess of \$2.8 million will handle most of the issues Mr Cox's report has raised?

Dr Kennedy—As I said, Senator, I certainly hope so. His report was a report of a trip in June-July 1996 and obviously we have had very considerable attention and key focus on this system for two years now.

Senator SCHACHT—Given that all variables are correct and stable, the money you are providing will overcome the issues that have been raised in these reports, as you say, that go back quite a while.

Dr Kennedy—I will just clarify that for you. Based on the expert reports—

Senator SCHACHT—The Hennessy Report?

Dr Kennedy—No, the expert reports advising us and the expert consultants working with us; as gallery Director, I have to say, I certainly hope so.

Senator SCHACHT—Not only do you hope so; we all hope so so that we can move on to more productive things. I appreciate you making that commitment. A couple of final matters I raise, because I will have to put a lot of these things on notice in the time we have available. I raised the question, which Mr Froud may have taken at the time, about whether Mr McDonald was going to have his contract terminated as a consultant to the circulation of the excellent Federation exhibition—which you, Dr Kennedy, took me around and, as I said previously, it was an outstanding exhibit. He had written an article in *Quadrant* at the time; the response was that the gallery had not seen the article and so on. I understand it was publicly available in the *Quadrant* magazine, which is a public document. Is it true that, since the publication and since we last met, Mr McDonald has had his consultancy terminated with the gallery?

Dr Kennedy—Yes, Senator. The Council of the National Gallery of Australia decided not to continue John McDonald's employment on contract as a consultant to the Federation exhibition.

Senator SCHACHT—Has he taken any legal action that the termination of the contract was not proper and to defend his rights under the contract?

Dr Kennedy—Yes, he has taken legal advice and his solicitors have been in touch with us.

Senator SCHACHT—There is at least discussion about that matter.

Dr Kennedy—There is indeed.

Senator SCHACHT—There is no proceedings yet before a court or anywhere.

Dr Kennedy—No.

Senator SCHACHT—You hope that you might be able to negotiate something there.

Dr Kennedy—It is a legal matter, Senator.

Senator SCHACHT—Yes, I know and I do not want you to get into anything here that in any way harms the interest of the gallery in those negotiations. Mr McDonald—since his contract was terminated—has been in contact with myself and has made public comments that he believed there was nothing in the article that attacked the standing of the gallery. It was about management processes and management procedures that he was raising, and he was actually defending the staff and defending the standing of the gallery as an international institution and he wanted to see these improvements. Where does the council believe the article affected the standing of the gallery by the remarks he made in the *Quadrant* magazine?

Senator Alston—As you have just said, he is entitled to his view but, given this is a matter of legal disputation, it would not be proper to canvass the reasons, what those reasons were based on or the merits of any arguments for or against.

Senator SCHACHT—I thought that might be the answer. It is not an unusual practice here that, when there is legal action—and I am not going to say that that is—

Senator Alston—It is no less valid because it is usual.

Senator SCHACHT—No, of course. I noted at the time the NGA claimed the publisher of *Quadrant* would not provide a copy of the full speech, so they could not write a response. The *Quadrant* is a public magazine, isn't it? You can go down to the bookseller and buy one at the local newsagent. I am not sure that it is a top seller and equivalent of the *Women's Weekly*, but it is available in newsagents and—

Senator Alston—You should stop reading *Women's Weekly* and try *Quadrant*.

Senator SCHACHT—Since your mob, the right wing ideologues, have taken over the running of *Quadrant* in some way, maybe you would be more interested in reading it than I would.

Senator Alston—So the mushie left should be back in control!

Senator SCHACHT—I find that answer a bit trite, to say the least, that you could not get hold of a copy.

Dr Kennedy—Senator, once again it is important to be specific. The gallery did not have a copy of the article. We believe that you did on the day of the last Senate estimates; we did not. We had an article which had appeared in the *Sydney Morning Herald*. At that stage the issue of *Quadrant* had not been published, and we sought from the editor of *Quadrant* the article in advance of publication, which was the case at the last Senate estimates hearing, and they declined to provide it to us. As soon as it was published and available on the news stands, we were able to get a copy.

Senator SCHACHT—When you got a copy, did you or the council seek further views or comment from Mr McDonald, before you terminated his contract, about the content of the article?

Dr Kennedy—Senator, this matter is a legal matter. I wish to make one distinction to you: the council of the gallery terminated John McDonald's contract as consultant to the Federation exhibition, not—

Senator SCHACHT—It was a contract they were in charge of. He was employed by the gallery to do consultant's work on that excellent exhibition, which I give the gallery and Mr McDonald, the curator, you and all the others, full compliments on an excellent exhibition.

Dr Kennedy—Senator, you are making deductions about issues which I cannot comment on at all.

Senator SCHACHT—Fine. I have one last matter. The publication earlier this week of the Ombudsman's report did raise questions that the handling of the issue of the work environment, because of the airconditioning, was not a spectacularly successful arrangement within the gallery, but I just wondered whether the gallery—I am not going to ask you to comment here because the report has just been received—will be responding publicly, in writing, via the estimates committee or somewhere to the comments and recommendations of the Ombudsman's report.

Dr Kennedy—Certainly, Senator, if you wish us to take that as a question on notice to provide a response, we will do so.

Senator SCHACHT—I think it will be very useful because it may help clarify, and hopefully bring to finality, the issues raised about the airconditioning that have been ongoing so that we can deal with it here. Therefore, it does not matter whether it is to the estimates committee or a public statement from the gallery about what it is doing with the Ombudsman's report. The Ombudsman has the right at any stage, subject to queries from the public, to make investigations into any public institution or department, so there may be further things to come.

The time for me has more than run out, in view of all the other agencies to come. If I had been through every item here, we would have been here till mid-afternoon, Mr Chair. I will now have to put on notice all of those questions so that they can all be dealt with specifically in light of the suggestion by the minister that I have accidentally slurred the reputation or made an accusation that cannot be dealt with in general. Some of them there have variations in quality and quantity of seriousness, but you will have an opportunity to respond. I wish the gallery well.

CHAIR—Thank you very much, Senator Schacht. If you would like to put your questions in to the secretary by tomorrow—

Senator SCHACHT—By close of business Friday.

CHAIR—Yes.

Senator SCHACHT—It will take some work, Mr Chairman, so I might actually put them to you and the secretary and it might have to be Monday, because it takes a fair bit of work to turn this material into structured questions on notice.

CHAIR—Thank you, Senator Schacht. I would like to thank the National Gallery and Dr Kennedy for appearing.

Dr Kennedy—Thank you, Chair.

CHAIR—Before we proceed to call the Australia Council, I would like to welcome Dr Ian Watt, who is the new portfolio secretary to the estimates.

Dr Watt—Thank you, Mr Chairman.

CHAIR—You will find this a very interesting experience which is something we in the Senate go through about three times a year. I hope that you find it enjoyable.

Dr Watt—They are a touch different from PM&Cs, Mr Chairman.

Senator SCHACHT—Dr Watt, do you have the same cultural interests that the previous head of the department showed for attending opera, art galleries and experimental theatre, et cetera?

Senator Alston—They both like wine.

Senator SCHACHT—That is an artistic—it covers South Australian wine.

Senator Alston—You are probably a beer drinker.

Senator SCHACHT—And you would be a regular attendee of all of those artistic functions, art gallery openings, drama, ballet, opera and will provide expert cultural advice to the minister on all of those performances.

Dr Watt—I remember my predecessor was a keen attendee at some of those functions, Senator. I certainly intend to take all activities of the portfolio very seriously, and I certainly hope I will be able to provide good advice on those subjects if called upon. I am by nature a museum buff and always have been, so I do not know whether that is a qualification for successfully working in the portfolio.

Senator Alston—Senator Schacht might be a museum piece shortly.

Senator SCHACHT—We will watch the funding for museums go up, Dr Watt, in subsequent years. We will watch very closely how much funding you give to the museums. Thank you for declaring your interest, and I wish you well in the job.

Dr Watt—Thank you.

[10.21 a.m.]

Australia Council

CHAIR—Senator Bishop.

Senator MARK BISHOP—Thank you, Chair. I welcome the officers from the department. Mr Strout, are you the senior person?

Mr Strout—Yes, sir.

Senator MARK BISHOP—Welcome, Mr Strout. Mr Strout, I refer you to Budget Paper No. 2 at page 75, under the heading ‘Reprioritisation of expenditure—Australia Council’. For the coming financial year and the three out years there are expenditure reductions, as I read the document, of \$1.5 million each year—a total of \$6 million for the four-year period. The explanation is:

Reprioritising expenditure for the Australia Council will allow support for—
the three named funds or programs—

without affecting existing grant programmes.

Can you explain what is going on with that reprioritisation of expenditure?

Mr Strout—Yes, Senator. I will ask our Executive Director of Finance and Services, John Wicks, to answer that question.

Mr Wicks—In fact the \$1.5 million was in the council's appropriation in this financial year, and it has been simply an adjustment to fund the initiatives starting next year of \$4.5 million, \$2.5 million and \$2.6 million in forward years. So it is not a reduction of such it is just an adjustment within the appropriation.

Senator MARK BISHOP—So it is not a reduction; it is an adjustment. An adjustment of what?

Mr Wicks—The initiative that we had in our appropriation in this financial year included four government initiatives, and from next year there are three; namely, Regional Arts Fund; the Young and Emerging Artists Initiative and the Major Festivals Initiative.

Senator MARK BISHOP—You had four initiatives this year: what are they?

Mr Wicks—Regional arts, young and emerging, contemporary music and major festivals.

Senator MARK BISHOP—In the three out years, you will have three programs.

Mr Wicks—In the next year, the 2001-2002 year, we have major festivals, young and emerging artists and regional arts.

Senator MARK BISHOP—So there is a reduction from four to three in the three out years. Coming back to this \$1.5 million per year, you call it an adjustment; is it a transfer of funds from the Australia Council to the department, because the department administers those three programs, does it not?

Mr Wicks—We actually run them.

Senator MARK BISHOP—You run them?

Mr Wicks—Yes. The \$1.5 in fact was part of the initiatives package in this year's appropriation.

Senator MARK BISHOP—Part of the \$9.6 million.

Mr Wicks—Yes.

Senator MARK BISHOP—For the three years.

Mr Wicks—That is right. In this financial year we also had the transfer of MPAB, the Major Performing Arts Board, funding, and the \$1.5 million actually is an adjustment within that entire package. It is offsetting what we are getting next year with what we got through the MPAB funding; so it is not a reduction as such.

Senator MARK BISHOP—Is it bringing forward the expenditure?

Mr Wicks—No, it is not.

Senator MARK BISHOP—So the total commitment of the government in the earlier statement was \$9.6 million over the three years?

Mr Wicks—That is correct.

Senator MARK BISHOP—That commitment stands.

Mr Wicks—Yes.

Senator MARK BISHOP—This year there will be the four programs you have identified. For next financial year one program will be deleted and there will be three programs; is that correct?

Mr Wicks—That is correct.

Senator MARK BISHOP—Australia Council will be administering each of those four programs this year and the three programs in the out years?

Mr Wicks—That is correct.

Senator MARK BISHOP—Is that correct?

Mr Strout—They are in our appropriations and we need to have discussions about administering all three of them.

Senator MARK BISHOP—I am sorry, I thought Mr Wicks said you were—

Mr Strout—They come to our appropriations. We are currently administering all four of those programs.

Senator MARK BISHOP—You have to have discussions with the department as to whether you will continue to administer all of the programs; is that correct?

Mr Strout—I believe that it is correct.

Senator MARK BISHOP—When will you be having those discussions?

Mr Strout—That might be best asked of the department.

Senator MARK BISHOP—Dr Watt, can you help us on that?

Dr Watt—Dr Stretton might be best placed to answer that, Senator.

Dr Stretton—The one program of those three which may come back to the department is the Regional Arts Fund. The minister has announced that he is thinking about changing the way in which that program is managed.

Senator MARK BISHOP—Have you done a review of current management practices?

Dr Stretton—At the moment the Regional Arts Fund goes to the Australia Council. The vast bulk of that money is then passed out to state governments, and state governments then pass it out to the regional arts organisations. So the minister is interested in arrangements which can take the money directly to the regional arts bodies rather than going through the Australia Council and the states and to the regional arts bodies.

Senator MARK BISHOP—Presumably, in that process, the minister would be consulting with the Australia Council?

Dr Stretton—Discussions have been taking place, yes.

Senator MARK BISHOP—When do you think they will conclude?

Dr Stretton—I cannot give a definite answer on that. They are taking place now and the minister is keen to announce the new arrangements. I am sure we will be working quickly to try to reach conclusion.

Senator MARK BISHOP—Back in 1998, the government announced \$10 million for the Australian Contemporary Music Development. My memory is it was compensation for the introduction of parallel importation of music CDs. Dr Watt, can you tell us what programs were funded with this money?

Dr Watt—It was a three-year program, Senator. It involved three separate programs: a Contemporary Music Touring Program, which I think was \$1.075 million; \$5.45 million for the Contemporary Music Export Development Program, which was through the Australia

Council; \$1 million each for Tasmania and South Australia to pilot music development programs; and \$1.5 million for a national community broadcasting satellite network. That package has had a number of impacts, including helping provide some useful long-term benefits to the industry. As I said, the program lapses at the end of June this financial year.

Senator MARK BISHOP—Has all of that money that was allocated to that particular program been spent?

Mr Strout—The Australia Council portion?

Senator MARK BISHOP—The Australia Council had about half, did it not?

Mr Strout—The Australia Council had \$5.45 million.

Senator MARK BISHOP—Have you spent all of yours?

Mr Strout—I do not believe all of that money is out the door yet, so to speak.

Senator MARK BISHOP—How much is left outstanding, Mr Wicks?

Mr Wicks—Approximately \$2.4 million at this stage.

Senator MARK BISHOP—\$2.4 million?

Mr Wicks—Yes.

Senator MARK BISHOP—Is it allocated?

Mr Wicks—I believe it is allocated, yes.

Senator MARK BISHOP—Can you tell me what it is allocated to?

Mr Wicks—I do not have the details of that, Senator. I will have to take that on notice.

Senator MARK BISHOP—Would you mind taking that on notice.

Mr Wicks—Yes.

Senator MARK BISHOP—How much of the \$2.4 million that is not yet been spent has been allocated; what programs it is allocated to; and when the allocation will be drawn down for spending. That is the Australia Council—40 per cent of your \$5.4 million, is not yet spent. The other \$5 million went to a couple of programs and the \$2 million to two of the smaller states. Has all of that money been spent, Dr Watt?

Dr Watt—I am advised by my officers, Senator, that the overwhelming bulk of it has been spent, and also the expectation is that what has not been spent will be spent by the end of the financial year.

Senator MARK BISHOP—By an ‘overwhelming bulk’, I take it we are talking 90 per cent plus?

Dr Watt—I am seeing nods behind me, Senator, yes. Something of that order anyway.

Senator MARK BISHOP—Earlier you said, Dr Watt, that the program had come to an end. So the Contemporary Music Touring Program post 30 June this year will no longer exist.

Dr Watt—That is correct, Senator, yes.

Senator MARK BISHOP—Has there been any evaluation done as to the success of this program or of its importance to Australian bands?

Dr Stretton—Not as yet. There is an evaluation at the moment which came under the broad umbrella of Playing Australia, and one of the issues which we and the Playing Australia committee will need to be looking at is the extent to which some of the contemporary music

initiatives may continue to fall under the Playing Australia program, for example, and whether that is a good way to spend some of that money.

Senator MARK BISHOP—Is Playing Australia the big body for the allocation of those funds?

Dr Stretton—Yes, sir. It was a subcommittee of the Playing Australia committee which allocated those funds.

Senator MARK BISHOP—The Contemporary Music Touring Program was a subcommittee of Playing Australia.

Dr Stretton—Yes.

Senator MARK BISHOP—The particular program concludes on 30 June this year. Playing Australia—and I want to pin you down here, Dr Stretton—is thinking about doing evaluation, or is committed to an evaluation?

Dr Stretton—The department is undertaking an evaluation of parts of the Playing Australia program at the moment as part of our regular evaluation program the department undertakes. The issue is that I would expect that some of the contemporary music players would apply now for funding through Playing Australia, and then it is up to the Playing Australia committee to decide on the relative benefits of—

Senator MARK BISHOP—I understand the answer you are giving me. Let me be more particular. Is there planned any particular or exact review of the Contemporary Music Touring Program as an entity in its own right?

Dr Stretton—Not that I am aware of, no, Senator.

Senator MARK BISHOP—If there was to be, would that be a decision of the department or Playing Australia?

Dr Stretton—It would be a decision of the department.

Senator MARK BISHOP—So it is not under consideration at the moment within the department, Dr Stretton?

Dr Stretton—No.

Senator MARK BISHOP—You would be unable to comment in any exact way as to whether the Contemporary Music Touring Program achieved its objectives, yes or no, would you, if you have not done any evaluation and you do not plan to do any?

Dr Stretton—I do not at the moment, but I am sure my colleagues would be able to assess how those funds were used and how effectively they were used, and there would be some appreciation of what impact that would have had upon the industry.

Senator MARK BISHOP—I am sure if they set to do that, they could do it. I do not dispute that, but you have told me earlier that there is no planned review, no evaluation of that program. I am just making the obvious point that at this stage you cannot comment that it was successful or not successful in terms of the objectives set by the government some three years ago. That strikes me as a logical conclusion.

Dr Watt—Perhaps I can help, Senator. There is a gradation of assessments from very simple, all the way through to the formal review you are talking about. I think officers in the department would be able to make an assessment of outcomes of the program against the criteria laid down and when it was started. That would not obviously be as finessed and as

formal and as articulated as a formal review process, but that would not mean that the officers could not give advice, for example, on whether the program was successful or not.

Senator MARK BISHOP—I accept that comment, Dr Watt, because they would have watched the program develop and the allocation of funds and had received advice from Playing Australia over the three-year period.

Dr Stretton—Just one other thing to follow from that: ongoing assessment would be part of the advice which the Playing Australia committee would look at in the future in terms of assessing the relative merits of—

Senator MARK BISHOP—Let me ask the obvious question, Dr Stretton: does the government regard the three years of the Contemporary Music Touring Program in terms of the objectives it set at the outset as having been successful or otherwise?

Dr Stretton—The answer to that program would obviously involve an assessment of the various four components of that program. Certainly particular aspects of it have been regarded as successful. I know that the community broadcasting satellite network is up and running and is doing good work. The contemporary music program has got the funds out there and, as a result of that, people have had access to live music which they would not otherwise have had access to. I am sure the Australia Council could also talk about how their Contemporary Music Export Development Program has assisted, as I understand it, Australian bands to make it more successful in the international market, so each of those elements have had a significant impact.

Senator MARK BISHOP—Is the departmental assessment—albeit not in writing, formalised or exact as Dr Watt was suggesting it could be—at this stage based upon review and feedback over a three-year period? Is your assessment that each of those subcomponents that you have just identified have been successful or not, Dr Stretton?

Dr Stretton—I see no reason to think otherwise.

Senator MARK BISHOP—You see no reason to be think otherwise?

Dr Stretton—I have sought extensive briefing and I can do that, but I have certainly heard no indication to the contrary. I must admit that I am not at all sure about the Tasmanian and South Australian pilot music development programs; I would have to seek advice on how those funds have been spent. But I know in the others that we are involved in, the funds have been spent, they have been spent for the purposes they were intended and they have had the type of impact that was expected.

Dr Watt—Senator, perhaps it might make sense if we were to undertake to come back to you on this issue about the assessment program.

Senator MARK BISHOP—If the department does do an assessment of the program, I would appreciate it if you would make available a copy of that assessment to the committee, Dr Watt.

Dr Watt—We can undertake to do that.

Senator MARK BISHOP—There was one part you did not answer, Dr Stretton. We were discussing the success of the program: has any evaluation been done of the program's importance to Australian bands at all?

Dr Stretton—Senator, I am not quite sure why you do not think I have not answered. The Contemporary Music Export Development Program, I understand, is about assisting Australian bands to make it on the international market in one form or another; so clearly that is of value to individual bands who are part of that program. The touring part of the program

is about taking Australian bands and allowing them to perform in areas which they would otherwise have difficulty doing, which, again, I would assume, is important to them in terms of their professional development and access to audience, et cetera. The community broadcasting network again is about ensuring that contemporary Australian bands are heard by people who are devotees of their music. So it is providing an opportunity for them to be heard by people who would otherwise not have the opportunity to hear them.

Senator MARK BISHOP—What programs currently exist to assist Australian bands to tour to and from regional Australia?

Dr Stretton—Other than the Contemporary Music Touring Program that we are talking about here, I am not aware of any others other than Playing Australia, which is a general thing.

Senator MARK BISHOP—We have the Contemporary Music Touring Program which ends 30 June. There are no other programs, except that Playing Australia is going to look at some subcomponents in the future.

Dr Stretton—Playing Australia is about touring the performing arts and obviously bands are performing artists.

Dr Watt—What will be different, Senator, is up to 30 June you have a specific program for contemporary music touring but, beyond 30 June, bands will not have a specific allocated or earmarked program, but they will be still eligible under the broader Playing Australia program.

Senator MARK BISHOP—What sort of funds will be available then?

Dr Watt—The overall allocation for Playing Australia is around \$3.5 million.

Senator MARK BISHOP—How much of that will be available for this particular purpose?

Dr Watt—I do not think there are subcategories in the program; it is an overall program with different sorts of touring troupes competing for different things.

Senator MARK BISHOP—There will no longer be a particular program to access funds but bands who wish to access funds will be able to apply to Playing Australia from its generic allocation of funds. Is that correct?

Dr Stretton—Correct.

Dr Watt—The other point to note, Senator, about the Contemporary Music Touring program is that it was always a three-year program rather than a permanent program.

Senator MARK BISHOP—Yes. Dr Watt, are you familiar with a press release from the Music Managers Forum on Tuesday, 29 May, headed ‘MMF Deplores Axing of Contemporary Music Touring Program’?

Dr Watt—Senator, I am not. Let me see if any of my officers are. No, we are not familiar with that press release.

Senator MARK BISHOP—That press release was put out on Tuesday, 29 May under that organisation’s name. Speaking of the Contemporary Music Touring program, it expressed disappointment and regret and said:

.... the government must acknowledge that despite such a huge financial windfall from the music industry, its reciprocal reinvestment in the sector and its commitment to the development of a valid powerful youth culture is minimal.

That is fairly scathing criticism of the government's actions in axing that particular program. Does the government have a comment on that?

Dr Watt—Senator, I cannot comment from a government point of view. We leave that to the minister.

Senator MARK BISHOP—Do we know where the minister is?

CHAIR—He is not far away, Senator. He is just on the phone in the ante-room. I would suggest you ask questions about government policy of the minister, not the head of the department.

Senator MARK BISHOP—All right. I would like to ask them of the minister. Here he is now.

CHAIR—The minister has reappeared and he will answer that question, if you so desire to put it to him.

Dr Stretton—Senator, I had not realised that the Australia Council also has a special support program for touring of bands which it may be appropriate for Mr Strout to let you know about.

Senator MARK BISHOP—I may come back to you on that, Mr Strout. Dr Watt, you have just briefed the minister on our conversation.

Dr Watt—Very briefly.

Senator MARK BISHOP—Minister, we were having a discussion on the Contemporary Music Touring program, and Dr Watt informed us that it is going out of business, so to speak, on 30 June this year. It was a three-year program. All the funds have been allocated; most have been spent; the program winds up; and affected bands in the future can apply to Playing Australia to get the same sort of relief. I referred Dr Watt to a media release from the Music Managers Forum dated Tuesday, 29 May. It is a lengthy thing, and I quoted extracts from it to the effect that the Music Managers Forum expressed disappointment and regret, and said:

... the government must acknowledge that despite such a huge financial windfall from the music industry, its reciprocal reinvestment in the sector and its commitment to the development of a valid powerful youth culture is minimal.

The following questions are appropriate to go to you, Minister. How does the government respond to that criticism by the Music Managers Forum regarding the importance of the Contemporary Music Touring program and the government's lack of commitment to contemporary music?

Senator Alston—It is a thriving sector generally. It is not the first time, and will not be the last, that those who are well aware of the time limits imposed on a particular program nonetheless would like it to be extended. It is revisiting all the old infant industry arguments that we used to have but, more importantly, this was in the context of our introduction of parallel importing arrangements for the music industry, and you will recall the sky was going to fall in and the industry would go broke overnight, there would be 55,000 jobs lost and there would be no-one out there making new Australian music, there would be no touring, and there would be nothing happening, full stop.

As far as I can see, parallel importing has only benefited consumers; it certainly has not harmed the industry, so it is perfectly understandable that we would take the view that we

should stick to that timetable. If anything, with hindsight, we can probably say that nearly all the concerns expressed even by moderates were unjustified, let alone the hysteria from people like ARIA. So although we have provided that funding, it may not have even been necessary, the way things have played out, but they are perfectly entitled, like anyone else, to take the opportunity to say ‘We would like you to keep giving us money.’ It is always easier to get money from government than to go out there and have to earn it. I do not criticise them for putting their hands out; I simply say that there is no reason at all why the government should change the basis on which this funding was provided.

Senator MARK BISHOP—You believe that the justification, if you like, for the original grants, the parallel importation, the fear of the consequences, has not been proven by facts over the last three years?

Senator Alston—Quite the opposite. Consumers have benefited from lower prices, and all those dire predictions were basically lies. ARIA’s campaign was one of the most disgraceful I have ever seen in a long history in politics. They did not hesitate to lie their heads off if it suited them, and certainly none of those predictions have come to pass. So in those circumstances, whilst we were concerned to ensure that there was no harmful impact on the contemporary music sector, we did provide the funding just in case, and I am sure they have put it to good advantage.

Senator MARK BISHOP—We would not anticipate further funding to a similar program in the future?

Senator Alston—Certainly not on that basis.

Senator MARK BISHOP—No. You have answered the question. Dr Watt: at what stage is the \$750,000 online initiative for contemporary music? Who handles that?

Dr Watt—It is through the Australia Council.

Senator MARK BISHOP—Mr Strout?

Mr Strout—I am advised that that is in process and that there was an initial project development concept and tender sought, and it was then believed, in reviewing the tenders, that further work needed to be done and that a specific online project manager is being sought to develop that particular \$750,000 strategy. So it was in train through the Australia Council and, on looking at the kind of response that was coming to the original brief, I believe the area of the council that is dealing with that has revised the brief and is appointing an online project manager specifically to set up that initiative. The hi-tech initiatives prove to be more challenging, as the competition gets intense in online work, so a specific project manager is being sought.

Senator MARK BISHOP—Did I hear you say that the initial tender specifications had to be reviewed?

Mr Strout—Yes, I believe that is correct.

Senator MARK BISHOP—Why is that?

Mr Strout—According to the information I have, the responses to the tender did not reflect the complexity of the sector and the complexity of the work that would be required to have an effective online marketing strategy.

Senator MARK BISHOP—What do you mean by ‘did not reflect the complexity of the sector’?

Mr Strout—That is the extent of my briefing on that, I am sorry. The response is that the complexity of the work to actually reflect the needs of contemporary music artists, contemporary music groups, promoting that work, providing the information to that work, the range of work that fits into that broad category, all need to be better developed in the response from those who put forward the tender.

Senator MARK BISHOP—So were the original tender specifications not specific enough or too brief or was the response to the tender specifications unacceptable; where is the fault?

Mr Strout—That I do not know and I would have to get back to you on, Senator. All I know is they are revising the process to appoint a specific online project manager to advise on that process.

Senator MARK BISHOP—What will his or her job be?

Mr Strout—Essentially to lead the project and, beyond that, job specifications and terms of reference—again, I would have to take on notice and get back to you.

Senator MARK BISHOP—It is his job to lead the project once the tender has been let?

Mr Strout—No, I believe it is actually to redevelop the process to have a more specific tender.

Senator MARK BISHOP—His job is going to be, initially, to redraft the guidelines for the tender process; is that correct?

Mr Strout—That is correct, as I understand it, yes, and that that is to be implemented briefly in the next month or two.

Senator MARK BISHOP—Take me through the timelines involved in this. Have we hired this fellow yet?

Mr Strout—Not as I understand it, no.

Senator MARK BISHOP—When will he be hired?

Mr Strout—The projection that I have is in June.

Senator MARK BISHOP—In June of this year?

Mr Strout—I do not know it is a fellow.

Senator MARK BISHOP—Fair comment, fair point. This person will be hired in June, say, to start work in July. When do we expect the officer to put out the new tender specifications?

Mr Strout—I am sorry, Senator, I do not have any more specific timelines than that with me today.

Senator MARK BISHOP—The only thing that is occurring at the moment is that Australia Council is looking to hire a particular person to drive the online strategy; is that correct?

Mr Strout—That is correct, Senator.

Senator MARK BISHOP—Why has it taken three years to get this far?

Mr Strout—I do not have a specific response, other than the general workload issues, I suppose.

Senator MARK BISHOP—When was this issue first put out in the public domain?

Mr Strout—The issue came through with the announcement of the money and the provision of the money through the contemporary music package.

Senator MARK BISHOP—When was that?

Mr Strout—That was in 1998.

Senator MARK BISHOP—That is what I thought. The initiative was first raised in 1998 and there was the necessary allocation of funds in 1998 for the financial year 1999. Here we are, two or three years later, and nothing has occurred, has it?

Mr Strout—I would not say ‘nothing’, no, Senator. I would say there are no public results yet. In terms of: is there an online event up? No, Senator, there is not.

Senator MARK BISHOP—We have not yet even got a person to draft the tender specifications on the payroll as yet.

Mr Strout—That is a new decision taken after the earlier steps to implement this.

Senator MARK BISHOP—Perhaps you can just put on the record, for my benefit, all of the initiatives and work that has occurred in respect of the online strategy since it was publicly announced back in 1998.

Mr Strout—Yes, Senator.

Senator MARK BISHOP—No, perhaps you could tell me now, Mr Strout.

Mr Strout—I do not have that information, Senator, I am sorry.

Senator MARK BISHOP—Why don’t you have the information?

Mr Strout—I do not know all of the activities that have occurred in relation to that particular strategy over the three years other than that the tender was developed, tenders were sought. On reviewing the tenders it was decided that the process needed to be revised, that the tenders did not meet the ultimate projections of what would be required and so an online project manager is being appointed to lead the projects and take it through an appropriate and effective process.

Senator MARK BISHOP—Who drafted the original tender specifications?

Mr Strout—Again, I do not know the specific person. This project is managed through the Audience and Market Development Division of the Australia Council, one of the four divisions of the Australia Council.

Senator MARK BISHOP—What is your position, Mr Strout?

Mr Strout—Currently, acting CEO, but normally I am the Executive Director of Arts Development, which is the seven of the art form boards.

Senator MARK BISHOP—How long have been Acting CEO?

Mr Strout—About three days.

Senator MARK BISHOP—I see, all right. It struck me as odd, you, being the CEO, did not know what had happened for two years within your own organisation; perhaps that answers the question. I suspect Dr Watt does not know either. Dr Stretton, can you be of any assistance here?

Dr Stretton—I certainly cannot, I am sorry.

Senator MARK BISHOP—Can anyone else observing be of assistance to the committee about what has gone on with this particular strategy in the last two years?

Mr Strout—Senator, the Executive Director of Audience and Marketing Development is overseas and I would very much like to take this sort of question on notice.

Senator MARK BISHOP—All right. In that case, Mr Strout, can you take on notice and provide us in writing the date of the first public announcement of the program; the allocation of funds; when the funds were received; where the funds have been parked since receipt, if received; what initiatives have been taken in the last two years; who carried out those initiatives; departmental role, if any; and identify for me the particular deficiencies in the tender program that have been brought to your attention that have caused essentially the process to have to be started from commencement?

Mr Strout—Yes, Senator.

Senator MARK BISHOP—You will take that, Mr Strout?

Mr Strout—Yes, Senator.

Senator MARK BISHOP—In hiring this new person, does the contemporary music industry support the new approach? Have you had any liaison with them?

Mr Strout—Personally, I have not, Senator.

Senator MARK BISHOP—Has the Australia Council?

Mr Strout—I believe the Australia Council would have. We have ongoing discussions with the contemporary music industry, we have support programs through the Arts Development Division for contemporary music. We have collaborations for international pathways, which are supported outside of the contemporary music development fund money, with contributions from the music board, and negotiations with the states about direct support for contemporary music in the coming year.

Senator MARK BISHOP—Probably, then, Mr Strout, you could also take on notice what has been the reaction of the contemporary music industry to the progress to date of this particular strategy and whether they support or do not support the new implementation process that you have outlined earlier.

Mr Strout—Yes, Senator.

Senator MARK BISHOP—Finally, on this issue: is there any funding for the ongoing maintenance of a major contemporary music web site after completion of this project? Have you looked at that issue?

Mr Strout—I will put that one with the other questions, if I may, Senator.

Senator MARK BISHOP—Yes. Thank you, Mr Strout, and the other officers from the Australia Council.

CHAIR—Thank you very much indeed. We now come to the Australian Film Commission.

Senator MARK BISHOP—I wonder chair if it would be more sensible if we do the AFC and the AFFC together, with the department.

CHAIR—If that is your wish, we can do it that way.

Senator MARK BISHOP—It may save a bit of time. I had one question outstanding from the Australia Council which I might ask Dr Watt to answer. It goes back to the regional arts fund: can you tell the committee for how many years this fund is funded for?

Senator Alston—Dr Stretton has got your answer.

Dr Stretton—A further three years.

Senator MARK BISHOP—That is this financial year plus two?

Dr Stretton—No, the next financial year plus two.

Senator MARK BISHOP—Yes, the next financial year plus two.

Dr Stretton—So starting 2001-02, 2002-03, 2003-04.

Senator MARK BISHOP—Yes.

[11 a.m.]

Australian Film Finance Corporation

Australian Film Commission

Senator MARK BISHOP—The \$50 million in the budget for the AFFC for over three years: does that represent ongoing funding or is that an increase in funding?

Ms Hughes—It is actually an increase from the previous year, which was \$48.015 million.

Senator MARK BISHOP—How much did you seek in the budget process?

Senator Alston—I do not know whether that is the proper question to ask.

Senator MARK BISHOP—Why do you say that?

Senator Alston—Many people will have wish lists; it is in the form of advice. You do not disclose the advice you get, you do not disclose negotiations that you make. You are perfectly entitled to ask them about their activities and what they do and what more they might be able to do, but I do not think it is reasonable for you to be asking what they would like.

Senator MARK BISHOP—All right. Ms Hughes, you said it increased from \$48 million to \$50 million. Over the life of this government, what has been the total increase to your organisation?

Ms Hughes—I will have to go to the appropriations. I do not know if we have an annualised list of our appropriations. If I am not mistaken, it may be \$55 million and then down to \$48.015 million. I think that might be the right figure.

Senator MARK BISHOP—Is it \$55 million in the 1996 or 1997 financial year?

Dr Stretton—Yes, in 1996-1997 it was \$48.5 million; in 1995-1996 it was \$50 million and, as Ms Hughes, said it has been at around \$48 million since 1996-1997.

Senator MARK BISHOP—It has been basically constant since 1996 in normal dollars and a slight increase this year up to \$50 million. In terms of real dollars over the last five or six years the value of the allocation has decreased significantly, has it not?

Ms Hughes—In real dollars?

Senator MARK BISHOP—Yes.

Ms Hughes—Yes.

Senator MARK BISHOP—Is it true that the FFC ran out of money in the last couple of months and has been allocating money from the next year's allocation already?

Ms Hughes—Yes. We stopped receiving applications and we stopped approving feature films and television dramas at the April meeting. We continued to finance documentaries where there was a pre-existing application.

Senator MARK BISHOP—Have you gone in to next year's allocation at all?

Ms Hughes—Yes, we have. Every year we are granted a forward commitment, called a DDL these days.

Senator MARK BISHOP—What is DDL?

Ms Hughes—LDL, I beg your pardon.

Senator MARK BISHOP—What is an LDL?

Mr Malouf—Liability Discharge Limit, that is the official—

Ms Hughes—Liability Discharge Limit. And it allows—

Senator MARK BISHOP—Are you allowed to borrow a certain amount into the future?

Ms Hughes—We can commit against next year's appropriation. We used to call it forward commitment, which is a term we all understood, and this one is more difficult. There are very long lead times in the approval, financing and delivery of feature films. Let's call it the FOL—it is a very sensible mechanism to have in an organisation such as the FFC. So in the past we have gone into an FOL, or whatever it is, in order to sustain some kind of continuity. What we may approve as a result of going into next year's appropriation may not be in fact drawn down until into the next financial year anyway.

Senator MARK BISHOP—Apart from committing funds from forward years' allocations to films or the like in the future, have you had other cause to go into forward years' budgets?

Ms Hughes—It is a sensible planning process in that it reduces the capacity to have a cash reserve at the end of the financial year.

Senator MARK BISHOP—Say again, I cannot hear you.

Ms Hughes—It reduces the likelihood of having a cash reserve towards the end of the financial year.

Senator MARK BISHOP—I will bet it does.

Ms Hughes—The principal purpose is to keep the continuity going.

Senator MARK BISHOP—How much have you borrowed from next year's allocation in this financial year?

Ms Hughes—It is hard to come to the precise figure because it depends ultimately on the revenue base we will have for the financial year, so we are just projecting recoupment from investments.

Senator MARK BISHOP—You know your revenue base, don't you?

Ms Hughes—No, we know our appropriation; the one uncertainty is the revenues from recoupment from projects in the marketplace. But if we take our projections we think that we will have gone into forward commitment by approximately \$8 million.

Senator MARK BISHOP—Your allocation, you told us, was \$50 million for the next financial year. What other receipts do you get?

Ms Hughes—About \$12 million in recoupment or revenues from those projects in the marketplace.

Senator MARK BISHOP—You have a total budget then of \$62 million or thereabouts?

Ms Hughes—It is \$63 million next year, I think.

Senator MARK BISHOP—Of that \$63 million you have already forward committed \$8 million; is that correct?

Ms Hughes—Yes.

Senator MARK BISHOP—That figure of 12 or 13, what did you call it again?

Ms Hughes—Recoupments.

Senator MARK BISHOP—Is that figure based on some sort of arithmetic mean of previous years' recoupments or what?

Ms Hughes—No, it is a detailed study of the projects in which we have invested and it entails a discussion with sales agents and distributors about the likely commercial success of the projects that will have been made at the time the projections have been made.

Senator MARK BISHOP—So it is as empirically accurate as it could be?

Ms Hughes—It is a very, very good guesstimate.

Senator MARK BISHOP—Has it proved to be accurate in the past?

Ms Hughes—It is pretty good.

Senator MARK BISHOP—Here we are talking 12½ per cent of next year's budget already being committed.

Ms Hughes—We would assume that this would be a recurrence so, by going into FOL this current year, we would assume that in the subsequent current year we will go into FOL again.

Senator MARK BISHOP—This process of FOL: for the last five or six years have you done it to the order of 12½ per cent every year?

Ms Hughes—I do not think we have done it for a period of a few years, about four or five years, but we had done it in the past prior to that period of time.

Senator MARK BISHOP—This going to the future, we are talking about now: the 2002 financial year is the first time you have done it for a number of years.

Ms Hughes—I think so, yes.

Senator MARK BISHOP—At the same time you told us earlier that your allocation of funds from government over the past five or six years—or Dr Stretton did—had been relatively steady at about \$48 million. You obviously adjusted your spending to meet government allocation up until more recent months, that is, around the \$48 million, because you did not go into forward lending. What has caused you to blow out to such a large figure this time?

Ms Hughes—I do not think it is a blow-out. We have a permitted level of 25. As I said, it is there essentially to ensure some continuity but also, given the long lead times in film financing, it is a sensible and appropriate measure to preclude a build-up of cash reserves. Those are the mechanical answers to your question.

Senator MARK BISHOP—What I am really asking is: what is different this year to the previous five or six years that has caused you to—

Ms Hughes—I think production costs have increased in this country. There is also a greater demand on funds in the area, for example, in children's drama, because of the ABA's increase in the children's drama quota over a period of time. Also, the producers, to penetrate the global market, want to step up a little bit in their ambitions, not only in the ideas and stories but possibly the casting in order to secure distribution in this very overcrowded international marketplace that we now deal with. So there are a variety of factors.

Senator MARK BISHOP—You have forward spent \$8 million.

Ms Hughes—Forward committed.

Senator MARK BISHOP—Forward committed \$8 million.

Ms Hughes—Yes.

Senator MARK BISHOP—Not forward spent?

Ms Hughes—No.

Senator MARK BISHOP—Forward committed.

Ms Hughes—That will be, as I said, expended on projects approved this current financial year and contracted this financial year, but the drawdowns in fact might occur over an eight-month period of time into the next financial year.

Senator MARK BISHOP—That would be the norm in this business as well.

Ms Hughes—Yes.

Senator MARK BISHOP—Dr Watt, we were told earlier by Ms Hughes that the budget allocation had gone from \$48.015 million up to \$50 million—an increase, say, of \$2 million on \$48 million, three or four per cent. Does that reflect CPI increases or is it a real increase on the previous year? Who would know the answer to that?

Dr Watt—Senator, I can guess at the answer. I think there would be some smallish real increase in that perhaps. The increase is of the order of three per cent or so. I am not sure what the government's CPI forecasts are for 2001-2002.

Senator MARK BISHOP—It is around 2½ per cent or 2¾ per cent.

Dr Watt—2½ per cent would be my hunch.

Senator Alston—Probably rounded to \$50 million.

Senator MARK BISHOP—On the previous year it is fair to say it is a minimal increase in excess of CPI, but over the five-year period it is a significant decrease in real dollars, isn't it?

Dr Watt—Certainly the nominal dollars are not in any sense indexed. How big or otherwise a decrease it will be will depend upon the CPI outcomes which I am certainly not a good enough forecaster to predict from here.

Senator MARK BISHOP—No, I am talking about the last five years. We were told earlier that the budget allocation back in 1995 was something in the order of \$48 million. It hovered around that figure for a number of years and has increased this year up to \$50 million. My point is that over that five or six-year period there has been a significant de-funding in real dollar terms. Would you agree with that?

Dr Watt—A decline in real terms funding.

Senator MARK BISHOP—Yes. Mr Dalton, turning to the AFC: has the AFC recently undergone an internal review of its core business?

Mr Dalton—An internal review of?

Senator MARK BISHOP—Its core business, the Film Commission?

Mr Dalton—Yes. I was appointed 18 months ago, and part of my brief was to continue the work that had been done at commission level, rising very much out of the recommendations in the Gonski report, prior to that, to look at what our role was and to refocus and refocus some of our activities and, also in the process, to restructure the organisation.

Senator MARK BISHOP—Has that review and restructure now concluded?

Mr Dalton—Substantially concluded. The central part of it was concluded and, in some senses, perhaps is embodied in the corporate plan which went to the minister last year and has been signed off on and approved.

Senator MARK BISHOP—It has been drafted; it has been signed off by the board; it has been to the minister; the bulk of it has been approved; and we are now in the implementation phase.

Mr Dalton—Yes, we are in the consolidation phase. That is how I describe it, yes.

Senator MARK BISHOP—What is your core focus now? What is your core business?

Mr Dalton—Our core business is in the area of the development. We are the federal government's development agency for the film industry and our function is to be involved in the development of projects, meaning film scripts for the most part, and people, as in new talent or emerging talent; and we do that via funding a range of production, for the most part. We also have an industry development role, so we are involved in funding a range of screen culture activities, such as film festivals, regional travelling programs, publications, seminars.

Senator MARK BISHOP—Did the review identify any shortfall in funding?

Mr Dalton—The review itself did not. Given the quite major changes that have occurred in the Australian industry over the past 10 to 12 years—some of which arose from a restructuring of the way the federal government funding was delivered to the industry in the creation of the Film Finance Corporation—the review substantially was looking at defining what was our role, what the changes are that have taken place in the industry which we should take account of in terms of how we deliver our programs to the industry.

Senator MARK BISHOP—Has the AFC received any increase in funding since the current government came to office?

Mr Dalton—No.

Senator MARK BISHOP—Has it suffered a decrease in funding?

Mr Dalton—The answer to that is yes. In 1996-1997, the AFC's appropriation went down to \$16.7 million; the prior appropriation was \$20.5 million.

Senator MARK BISHOP—What was it this year?

Mr Dalton—It is \$16.8 million.

Senator MARK BISHOP—At best, you are standing still but in fact suffering a decline in real value of your allocation, aren't you?

Mr Dalton—Yes, it has been static for the last six years.

Senator MARK BISHOP—What was the government's reaction to your review when you passed it to the minister's office for comment?

Mr Dalton—It accorded with the view that the minister had with regard to our role, so it was a very positive response that we had taken account of the changes to the industry, taken account of some of the mapping work, if you like, that was done by Gonski in his review, and that we had come out of our own internal review and restructure with an organisation which was more appropriate to the film industry as it goes into the 21st century.

Senator MARK BISHOP—The government signed on to your recommendations in the review.

Mr Dalton—The corporate plan was accepted, yes. It was not so much that we—

Senator MARK BISHOP—The corporate plan comes after recommendations arising out of review, don't they? That is just the mechanics of giving effect to the recommendations.

Mr Dalton—Yes.

Senator MARK BISHOP—What went to the government?

Mr Dalton—The review we did was an internal review; it was not a review for the government. We went ahead with the restructure and obviously we communicated both the nature of that restructure and the reasons underpinning it, obviously, to the department and the minister on a regular basis.

Senator MARK BISHOP—I thank the officers of the AFC and the AFFC.

[11.21 a.m.]

CHAIR—We now call the Australian Film, Television and Radio School.

Senator MARK BISHOP—Chair, I should advise you I do not have any questions for the Australian Film, Television and Radio School, National Maritime Museum of Australia, the National Archives of Australia, the National Library of Australia or the Australian Institute of Aboriginal and Torres Strait Islander Studies. I cannot offer you any advice as to my colleagues or other parties' senators, Chair.

CHAIR—I understand that. We do call agencies because these are the major estimates of the year. What you are really saying is that the ALP does not have any questions for these agencies.

Senator MARK BISHOP—What I am really saying, Chair, is that the senator who normally conducts this—

Senator Alston—We can assume no-one else does if they are not here.

Senator MARK BISHOP—has been called away because of an illness in the family and this has been handed on at short notice.

CHAIR—I am not being critical of you, but it would have been helpful to know in terms of bringing these people from interstate. It does not exclude the fact the Democrats and other senators may have questions. Probably the officers should stay here for a little while, until 2 o'clock at least, when we go to Information Technology.

Senator Alston—No. If they have been required to attend and they get to their place on the agenda and there are no questions, then they ought to be allowed to go.

Senator CALVERT—Absolutely.

CHAIR—Fair enough, I accept that advice. The officers from those programs may depart.

Senator MARK BISHOP—Chair, are you letting all of those agencies go or just the one you immediately called?

Senator Alston—No, the ones that—

CHAIR—The ones you indicated that you did not have questions for.

Senator MARK BISHOP—Yes, I indicated that I did not have questions. I am not speaking on behalf of other opposition senators or, indeed, senators from the government.

Senator Alston—Again, I think we can assume that if people are not here at the time that these agencies are scheduled to appear, then there are no questions.

Senator MARK BISHOP—I am making the point they can be called.

Senator Alston—You can call them formally now.

CHAIR—The point is the National Archives of Australia and National Library—

Senator Alston—I will move that the agenda be varied if necessary to enable each of those agencies to be questioned now. What we will then find is that no-one has got any questions and therefore they can go.

Senator MARK BISHOP—Fine.

CHAIR—So be it then. We call the department of the arts, then, Senator Bishop.

Senator MARK BISHOP—National Museum of Australia.

CHAIR—Concurrent with them, you are not calling the Australian Institute of Aboriginal and Torres Strait Islander Studies.

Senator MARK BISHOP—Correct.

Dr Watt—I am advised the museum officers are not here yet. Progress through the agenda has been pretty quick; they are on their way.

CHAIR—They are not far away, given the closeness of the museum. The option is that you could do another program, Senator, or we could break for morning tea.

Senator MARK BISHOP—Why don't we break for morning tea, Chair?

CHAIR—We will break for 15 minutes.

Proceedings suspended from 11.25 a.m. to 11.47 a.m.

National Museum of Australia

CHAIR—We welcome the officers to the table.

Senator MARK BISHOP—I have only one or two questions for the National Museum. Does a Ms Elaine Heuman-Gurian work for the National Museum?

Mr McIntyre—Ms Heuman-Gurian has been an adviser to the museum on a consultancy basis.

Senator MARK BISHOP—So she is not an employee?

Mr McIntyre—No, she is not.

Senator MARK BISHOP—And has not been an employee in the past?

Mr McIntyre—No, not at all.

Senator MARK BISHOP—Could you provide details to the committee of all consultancies let to Ms Heuman-Gurian, either personally or under the appropriate corporate entity that she might have, for the last three years. What I am interested in is the nature of the consultancy, the work that she was consulted to provide, the consideration that was contracted

in the consultancy process, the amounts of payments—if they differed from the contract amount—and when those payments were made, the purpose of the consultancies, and any other assistance, financial or otherwise, that the National Museum might have provided to Ms Heuman-Gurian over that period. You may be able to tell me now, Mr McIntyre, whether Ms Heuman-Gurian is currently providing any services to the museum.

Mr McIntyre—No, she is not.

Senator MARK BISHOP—When did her last contract end?

Mr McIntyre—It would have been around the museum's opening in March.

Senator MARK BISHOP—In March of this year.

Mr McIntyre—Yes.

Senator MARK BISHOP—They are the only questions I have of the National Museum. My understanding is that Senator Faulkner also has some questions of the National Museum.

CHAIR—He is not here. I thank the officers for attending.

Department—Arts

Senator MARK BISHOP—Dr Stretton, I am going to be asking questions about the Regional Arts Fund, the Young and Emerging Artists Initiative, the Major Festivals Initiative, the Cultural Development Program, the Australian Business Arts Foundation, the Heritage Collections Council and some general questions on the proposed US free trade agreement and local film and TV content standards.

Dr Stretton—Senator, two of those—Major Festivals and Young and Emerging Artists—are Australia Council programs, not departmental programs. The rest we can cope with.

Senator MARK BISHOP—I want to go, firstly, to the Regional Arts Fund, which is administered by the department. Senator Alston put out a press release on –

Dr Stretton—On budget night?

Senator MARK BISHOP—Yes, 22 May. The press release said:

In this Budget, the Government has announced its renewed support to the Regional Arts Fund, the Young and Emerging Artists Initiative and the Major Festivals Initiative, with an allocation of \$9.6 million over the next three years.

At a similar time Senator Alston's junior minister, Mr McGauran, made an identical statement, using almost the same wording I read out there. He said, on 22 May:

In this Budget, the Government has announced its renewed support to the Regional Arts Fund, the Young and Emerging Artists Initiative and the Major Festivals Initiative, allocating them \$9.6 million over the next three years.

So they were almost identical press releases on the issue from those two ministers. Similarly, Senator Macdonald, Minister for Regional Services, Territories and Local Government, put out a release, headed, 'Equity of Services – Arts,' on 4 June—that might be the print date. In that he made the comment:

The Government will continue funding the Regional Arts Fund by providing \$7.6 million over three years from 1 July 2001.

So we have Minister Alston and Minister McGauran identifying \$9.6 million for the three funds over three years, and Minister Macdonald identifying \$7.6 million over the three years from 1 July of this year. When you turn to the budget statement, it says that three programs have been funded over the next three years and the total funding allocation is 2001-02, \$4.5

million; 2002-03, \$2.5 million; and \$2.6 million in 2003-04. That can be found on pages 46 and 75 of Budget Paper No. 2. Can you outline to the committee for each of those three funds what is the budget allocation for each of the three years? There appears to be a discrepancy between what the two arts ministers and Senator Macdonald are saying.

Dr Watt—Senator, I do not have the advantage of having the press release from Senator Macdonald. Is some of the difference the fact that Senator Macdonald, as you seemed to quote it, was just talking about the Regional Arts Fund itself?

Senator MARK BISHOP—I will read it to you. Senator Macdonald says:

The government will continue funding the Regional Arts Fund by providing \$7.6 million over three years from 1 July 2001.

Dr Watt—That is specifically the Regional Arts Fund and that alone, whereas the broader number of \$9.6 million you quoted is not just the Regional Arts Fund but also the Young and Emerging Artists Initiative and the Major Festivals Initiative. It is a broader aggregate.

Senator MARK BISHOP—Then perhaps we could do this: there are three funds and there are three years; if we take the Regional Arts Fund for each of the three years, you can tell me what the allocation is in each of those three years.

Dr Watt—As I understand it, it is \$2.5 million, \$2.5 million and \$2.6 million for the Regional Arts Fund.

Senator MARK BISHOP—What about the Young and Emerging Artists Initiative?

Dr Watt—\$1.25 million in the first year.

Senator MARK BISHOP—And the other two years?

Dr Watt—It is one year only.

Senator MARK BISHOP—And what about the Major Festivals Initiative?

Dr Watt—\$0.75 million in the first year only.

Senator MARK BISHOP—Nothing in the other two years?

Dr Watt—One year.

Senator MARK BISHOP—So the Regional Arts Fund is going to get \$7.6 million, in almost equal amounts, over the three years, and the other two funds are going to get \$1.25 million and \$0.75 million in the first year only.

Dr Watt—Yes.

Senator MARK BISHOP—So for the other two funds it is the current intention that they cease operation at the end of financial year 2002?

Dr Watt—That is not something that anyone who is here is able to comment on. The answer at the moment is that they have been provided with funding for one year. Whether or not there would be a continuation of funding will depend on what happens in the budget in future years.

Senator MARK BISHOP—In that case, then, why has the Regional Arts Fund been allocated funds for the full three years and the other two funds only for one year?

Dr Watt—It is not a question I am able to answer immediately, Senator. Perhaps we can undertake to get back to you on that one.

Senator MARK BISHOP—It appears that there is no great inconsistency between Senators Alston and McGauran. They are saying \$9.6 million over three years for three funds—you can tick that as correct—and Senator Macdonald is saying \$7.6 million for the Regional Arts Fund over three years, and we tick that as correct. What is also not in dispute is that the other two funds have only got funding for one year. That is obviously a deliberate policy decision this year.

Dr Watt—I assume it is, Senator.

Senator MARK BISHOP—It is inconsistent with the practice of previous years of this government. I want to know why they are only to be funded for this year.

Dr Watt—We are not able to comment on the reason why it is funded for this year. Perhaps we can get back to you on the subject.

Senator MARK BISHOP—You choose not to comment or—

Dr Watt—Just unable.

Senator MARK BISHOP—Why are you unable?

Dr Watt—I do not have an explanation, I am afraid.

Senator MARK BISHOP—Does Dr Stretton have an explanation?

Dr Stretton—Sorry.

Senator MARK BISHOP—Are any other officers involved in these two funds?

Dr Stretton—As I said earlier, Senator, these are programs which are, at least at the moment, funded through the Australia Council.

Senator MARK BISHOP—I understand that the allocation of funds is through the budget council to Australia Council but, in the final analysis, that decision to give funds to Australia Council is a policy decision of government. What I want to know is why those two programs are apparently going to be defunded. There must be a reason. Someone in the department must know. It has not happened, has it?

Dr Watt—As I said, perhaps we could take it on notice and respond to you.

Senator MARK BISHOP—I am not trying to be difficult, Dr Watt, but you are the head of the department, you would have been privy to decisions. I am not asking you to criticise government decisions, but it is reasonable to ask for an explanation as to why these two programs are to be axed.

Dr Watt—It may be more appropriate to say that they have been provided with funding for one year. That certainly does not preclude the government addressing them in the forthcoming budget or any government addressing them in a future budget. At the moment they have one year funding.

Senator MARK BISHOP—At the moment they have no funding in the two outyears?

Dr Watt—No funding beyond the next financial year.

Senator MARK BISHOP—Is the minister about the place, do you know, Chair?

CHAIR—I am sure that if you look directly at the television camera and speak loudly, he will come down.

Senator MARK BISHOP—I would like to pursue that issue. The head of the department has advised us he does not know and Dr Stretton is similarly advising the committee that he does not know.

CHAIR—Is it essential that the minister come?

Senator MARK BISHOP—It is essential that I get an explanation. I have asked a reasonable question; it is not outside the limits of what is proper in this process. The officers cannot advise me.

CHAIR—The minister, I am sure, will come down. He said that he had some matters to attend to in his office, so if you can bear with us for a little while, the minister will return.

Senator FAULKNER—While we are waiting for that, Mr Chair, I have some brief questions on the Federation Fund. We are at the right outcome for the Federation Fund, aren't we, Dr Watt?

Dr Watt—Yes.

Senator FAULKNER—I wondered about the issue of a reallocation from existing Federation Fund allocations to help with management plans for six former Defence harbour sites to be managed by the Sydney Harbour Federation Trust. There was some recent press reportage of that.

Dr Stretton—Senator, that is the department of environment—that project is not managed by us, it is managed by—

Senator FAULKNER—That is what I was going to ask. It says in this article that there will be \$14 million reallocated from existing Federation Fund allocations to help with management plans for the former Defence harbour sites. I seek your assurance that there was no such reallocation of Federation Fund funds which is, of course, as I understood it, either managed by your department or jointly managed by your department.

Dr Stretton—Not at all.

Senator FAULKNER—What is that—Federation funds?

Dr Stretton—I thought your question was: does that have implications for the programs under the Federation Fund which we are managing?

Senator FAULKNER—I did not ask that but I was asking: are you aware of any reallocation of Federation Fund funds that are managed by your department going into these areas?

Dr Watt—Into the specific Sydney Harbour foreshore sites?

Senator FAULKNER—Yes.

Dr Watt—The answer is that we are not aware of any reallocation of the programs managed by this department into that particular program which is managed by Environment and Heritage.

Senator FAULKNER—It is true, isn't it, Dr Watt, that at least one, possibly more, projects for which Federation Fund funding has been announced have actually fallen over? The specific example I know of is the Brisbane light rail project.

Dr Watt—I am not aware of that as far as this portfolio is concerned. It is not a project handled within the portfolio. Brisbane light rail would be handled, I assume, by the Transport and Regional Services portfolio.

Senator FAULKNER—What responsibility does DOCITA currently have for the major projects part of the Federation Fund?

Dr Watt—The responsibility for the department extends to those projects which fit within a cultural and, if there were any, communications framework. For example, the Alice Springs to Darwin railway project is managed by Transport and Regional Services. The one you raised previously—the Sydney Harbour Foreshore Trust—because of its environmental nature is managed by Environment and Heritage. We do not have any overarching responsibility for major Federation Fund projects.

Senator FAULKNER—Yes, not for management, but I am asking which department of state would be able to answer a question, if I directed it to them, of what are the current and ongoing major projects from that part of the Federation Fund—the major projects element of the Federation Fund? My understanding was that, in terms of previous evidence that had been given, DOCITA did have a role in relation to not managing the projects but at least was aware of which particular major projects have been funded. I am surprised to hear you do not know any more.

Dr Watt—The answer is that there is an issue about what you mean by ‘aware’? We have portfolio responsibility for some of those projects.

Senator FAULKNER—Yes.

Dr Watt—I am sure that officers in the department may be aware of which departments handle other projects, but do we have any formal responsibility for them—no. Formal responsibility for the overall major Federation Fund projects resides with PM&C, insofar as there is any overarching responsibility.

Senator FAULKNER—Do you still claim to have either responsibility or joint responsibility for the Federation Cultural and Heritage Projects program?

Ms Gosling—Yes, Senator, we do have joint responsibility for managing that program. We manage that jointly with the Department of the Environment and Heritage.

Senator FAULKNER—Does DOCITA have a current list of the major projects that are currently being funded out of the \$900 million major projects element of the Federation Fund?

Ms Gosling—No.

Dr Stretton—We have a list of the ones we are managing, obviously.

Senator FAULKNER—Which ones are you managing, Dr Stretton?

Dr Stretton—Do you want me to read them out?

Senator FAULKNER—Yes.

Dr Stretton—In New South Wales, the Australian Museum of Flight, the Australian Shearers Hall of Fame at Hay, the Gunnedah Performing Arts Centre, the Line of Lode Museum at Broken Hill, the National Institute of Dramatic Arts stage 2, the Tamworth Regional Entertainment Centre; in Victoria, the Australian Centre for Moving Image, the Commonwealth Technology Port, the National Gallery of Victoria; in Western Australia, the Australian Prospectors and Miners Hall of Fame; in Tasmania, the TSO Concert Hall; in the ACT, the Centre for Christianity and Australian Culture, the Australian Federation Centre, which was the refurbishment of the south-west wing of Old Parliament House, and, of course, the National Museum.

Senator FAULKNER—Would it be possible to indicate to the committee for all those projects what the dollar figure is? You may care to take that on notice.

Dr Stretton—I am happy to take that on notice, of course.

Senator FAULKNER—Thank you.

Dr Stretton—In terms of the total amount that was allocated to those projects?

Senator FAULKNER—Yes, indeed. Has the public announcement now been made for all those projects in relation to the dollar figure?

Dr Stretton—I assume so.

Dr Watt—If memory serves me correct, Senator, dollar amounts were announced when each one was announced.

Senator FAULKNER—I want to be clear on this. Are you saying they are all out of the major projects part of the Federation Fund?

Ms Gosling—That is right.

Dr Watt—Correct.

Senator FAULKNER—They are from the major projects part of the Federation Fund being managed by your department?

Dr Stretton—That is correct.

Ms Gosling—Yes.

Senator FAULKNER—Do you have a total dollar figure—I know you have taken the aggregated question on notice.

Dr Stretton—I do not know whether it is added up in my tables, Senator.

Senator FAULKNER—I thought you may have a total line at the bottom of the table.

Dr Stretton—I do not there but I may have it somewhere.

Ms Gosling—For those 30 projects, the total figure for DOCITA is \$311,634,000. There is actually one other project that was not on the list Dr Stretton read out, that is, the Queensland Heritage Trials Network which was funded out of the major Federation Fund dollars, and the Commonwealth is contributing \$50 million to that.

Senator FAULKNER—That project is well underway, is it?

Ms Gosling—That is a project that comprises 31 individual projects. Essentially, it is progressing well but of course, with that number of projects, some are progressing slower than others.

Senator FAULKNER—What about the Federation Cultural and Heritage projects which you have joint responsibility for administering? Let's move away from the major projects component now to the Federation Cultural and Heritage projects. Have any of those projects fallen over?

Dr Stretton—No, Senator. We manage 28 projects under that scheme.

Senator FAULKNER—Yes, 28 out of how many?

Dr Stretton—Environment and Heritage manage the other 32.

Senator FAULKNER—You are about half?

Dr Stretton—Of our 28, 10 projects have been completed already. Two projects, although they will be substantially completed in 2001, will not be fully completed until early 2002. There are none that have fallen over, if that was the term you used.

Senator FAULKNER—Which are the two that will not be completed in 2002?

Dr Stretton—The two are the Byron Bay Community Centre and Warriparinga.

Senator FAULKNER—Have any dollar figures changed in relation to the 28 being managed by DOCITA?

Dr Stretton—In terms of the distribution of tabled funds among the 28, you mean?

Senator FAULKNER—Yes.

Dr Stretton—Not that I am aware of.

Senator FAULKNER—I do not know about among the 28, but with the 28 is what I meant.

Dr Stretton—No, not that I am aware of.

Senator FAULKNER—You would be aware of—

Dr Stretton—No.

Ms Gosling—No.

Senator FAULKNER—In relation to the Federation Cultural and Heritage Projects Program: are there any unexpended moneys?

Ms Gosling—All the deeds are in place for those projects. So, essentially, there are commitments in relation to all of the dollars for that program.

Senator FAULKNER—Are there any additional projects to the 28 being administered by your department in the 32 environment that are being planned?

Dr Watt—We are not aware of any, Senator, in relation to our own department and, as far as we are aware, there is no suggestion of any additional FCHP projects.

Senator FAULKNER—What I am interested in understanding, in relation to the components of the Federation Fund—there are three components of it—is whether there is any expended money; it is as simple as that.

Ms Gosling—In relation to the Queensland Heritage Trails Network, there is one project under that program—\$1 million has been allocated to the Metro Arts project. The deed has not been signed yet, but we are in negotiations and it is expected the deed will be signed very shortly. In relation to the Federation Community Projects Program, the \$200,000 per electorate, there are some deeds that are not in place in relation to those smaller projects.

Dr Stretton—A relatively small number, though.

Ms Gosling—A relatively small number, but that would be the only money that is not actually committed in terms of deeds being in place.

Senator FAULKNER—There are no uncommitted moneys that your department is aware of.

Dr Stretton—Very, very little.

Ms Gosling—No. What I have said in relation to the \$1 million for the Metro Arts project is that the deed is not actually signed, but negotiations are well in place.

Senator FAULKNER—I am accepting that that is committed money.

Dr Stretton—In that case the answer is not yet.

Senator FAULKNER—My question was: understanding that qualification which you made—and I appreciate that—are there any uncommitted moneys remaining in the Federation Cultural and Heritage Projects Program?

Ms Gosling—No.

Senator FAULKNER—The electorate based program?

Ms Gosling—There is over a thousand of those projects, and there may be a handful—it may be in the order of three—where the deeds are not actually in place. So they would be relatively small amounts of money, but I can come back with what that figure is.

Dr Stretton—Eleven projects do not yet have deeds of grant.

Senator FAULKNER—Thank you for that. Eleven out of?

Ms Gosling—It is over a thousand.

Senator FAULKNER—Eleven out of a thousand: how are you defining those?

Ms Gosling—That is the Federation Community Projects Program, the electorate program.

Senator FAULKNER—Where the deeds have not been signed?

Ms Gosling—Yes.

Senator FAULKNER—Thank you for that. There has been local publicity around a lot of those thousand or so projects, as I am sure the department appreciates. Have you been able to compile some sort of central register about all those projects that might be able to be made available to the committee, excepting the 11 that await to be finalised? I wondered if I could ask you to take on notice to provide a list of those now for the benefit of the committee.

Ms Gosling—You want a list of the projects?

Senator FAULKNER—Yes.

Ms Gosling—Yes. There is actually a web site and they are all listed on the web site.

Senator FAULKNER—They are all on the web site?

Ms Gosling—Ones where the deeds are in place and where the project is confirmed.

Senator FAULKNER—I was going to ask you about that, what the correlation was. The web site has got everything bar the 11, has it?

Ms Gosling—I can take that on notice. I would not like to say categorically yes, but it should be quite comprehensive at this stage.

Senator FAULKNER—The reason I have asked the question in the way I did is always getting the interface between the current situation and the web site sometimes causes unnecessary complexities.

Ms Gosling—Sure.

Senator FAULKNER—If you could provide that answer, understanding that a lot of this material is on the web site. You might be able to provide that information off the web in answer to my question on notice and then the department could provide anything additional, because that would minimise the amount of internal work for the department.

Dr Watt—We can do that, Senator.

Senator FAULKNER—I do not want you to go to a lot of unnecessary administrative work on this, but I want to make sure that we have covered those projects that are not on the

web site but that the department is aware of and can inform the committee about. If you do that in a creative way, that would be helpful.

Ms Gosling—Yes.

Senator FAULKNER—Secondly, in relation to the Federation Cultural and Heritage Projects Program: would you be able now to provide a full list of those? Some of those are also on the web site, from recollection.

Ms Gosling—That is right. Yes, that is so.

Senator FAULKNER—Is the full list there on the web site?

Ms Gosling—Again, Senator, we will provide you with a list. I would like to think that the web site has all those projects listed, but I would not like to give a comprehensive ‘yes’ until I double-check that, but it should be at this stage that they are all listed.

Senator FAULKNER—Yes. I would appreciate in relation to those, too, if you could indicate the timing of the announcements in relation to those, which I imagine would not be too difficult to provide for us.

Dr Watt—In many cases, of course, they are already launched and announced.

Senator FAULKNER—That is why I am saying I do not think it should be too difficult.

Dr Watt—By ‘announcement’ do you mean when the project was first announced or when the launch was?

Senator FAULKNER—If there are, as you point out, a couple of different dates, you might indicate that in the answer. I imagine there will be no strict pattern in relation to this, which I understand and which I think is the point you make, and I accept that. Are there any projects in the FCHP element of the Federation Fund that were not subject to the process that we have examined at previous estimates committees—the one that was finalised by prime ministerial letter after the announcement of the last federal election in 1998? Are there any projects that you can identify additional to those decisions?

Dr Stretton—No, Senator.

Senator FAULKNER—That list remains the current list of projects that have been proved and funded under the Federation Cultural and Heritage Projects Program.

Dr Stretton—That is correct.

Senator FAULKNER—Thank you for that. Is there currently any other discretionary grants program, Dr Watt, in the departmental element of DOCITA?

Dr Watt—We have a number of grants programs, Senator. It is a question of what ‘discretionary’ means, I suppose.

Senator FAULKNER—The usual definition. Can you take on notice to provide a list of the current discretionary grants programs that you have. These are elsewhere obtainable, but I am particularly interested in this department because we have had such a focus on it over the years. I would like to have a look at what you are currently giving your attention to.

Dr Watt—We can provide that, Senator.

Senator FAULKNER—I noticed in the recent Tim Fischer biography, *The Boy From Boree Creek*, that Mr Fischer is quoted as saying that the coalition used the Federation Fund as a procurable to great effect in the 1998 election. Minister, has that been drawn to your attention?

Senator Alston—I did see it in the context of the release of the book. It probably helped to kick sales along a bit.

Senator FAULKNER—Did you say it helped the sales?

Senator Alston—Presumably, getting some coverage always helps. I was surprised that that was Tim's view, but if he thinks they made such a big difference, then that of itself is interesting. Certainly, to suggest that somehow there was any impropriety is quite contrary to all of those inquiries that you and others have instigated. I think the most recent report of the Joint Committee on Public Accounts and Audit again endorsed the Auditor-General's finding that there was no political bias involved in the funding arrangements, and I think even you conceded that, as a member of the committee.

Senator FAULKNER—I conceded no such thing, Senator Alston, but I was wondering whether you agreed with the then Deputy Prime Minister's assessment.

Senator Alston—As I say, I am pleased that he thinks they had such a positive impact, but I certainly do not agree with any implication that there was anything other than absolute integrity involved in the process of selection. There has always been this fundamental misunderstanding, deliberate or otherwise, that, if we did not simply rubber-stamp the bureaucrats' advice, we were acting improperly. That canard has been put to bed by the Auditor-General and others and, as far as I am concerned, I accept his findings on the matter.

Senator FAULKNER—With respect, you scoffed at my suggestions that the Federation Cultural and Heritage Projects element of the Federation Fund was a procurable, but we have now no lesser authority than the then Deputy Prime-Minister of Australia, a member of your government, saying it was.

Senator Alston—One man's view. If you go out and say it was a procurable, should we take that as gospel?

Senator FAULKNER—This is not me; this is Tim Fischer. You apparently took little account of my suggestion, a strong case though I thought was mounted.

Senator Alston—I did not detect a great deal of support from your colleagues. I remember you threatening to take the matter further after the Auditor-General's report was handed down, but it never went anywhere after that. I was not altogether surprised because I think it was about the third time running you had been comprehensively rolled by the Auditor-General. Anyway, it gives it new life, kicks it along for another day or two, but at the end of the day, Mr Fischer—

Senator FAULKNER—Was he right or wrong?

Senator Alston—He was wrong.

Senator FAULKNER—It was not—

Senator Alston—As I say, I am pleased that he thinks it made such a positive impact, particularly in his electorate perhaps, but in so far as there is any implication that there was impropriety or political bias involved, I prefer the view of the Auditor-General, who found no such thing.

Senator FAULKNER—You now tell the committee that Mr Tim Fischer, the then Deputy Prime Minister, was wrong. I wonder whether I could ask a question of—

Senator Alston—If I got the current Deputy Prime Minister to say he was wrong, would you accept that? No, you would not. You would say, ‘Well, what else would you expect?’ It just happens to suit you to point to what is said in the context of a book launch.

Senator FAULKNER—I do not think you could get the current Deputy Prime Minister out of his bunker to say anything.

Senator Alston—I am just saying it is one person's view of the world, three years after the event.

Senator FAULKNER—That one person happened to be the second most senior member of the government at the time.

Senator Alston—He is entitled to his views. I happen to know he is wrong if he is implying that there was any impropriety. If he is simply saying, ‘This was a great project and it worked very well,’ then I am pleased to hear it. The purpose of the exercise was to bring maximum joy to as many people as possible, and I think it has overwhelmingly been regarded by local communities as very successful. I think they are all very disappointed at the negative attitude you have taken for such a long period.

Senator FAULKNER—Could I ask the department: given your administration of the project, have Mr Fischer's statements in his biography *The Boy From Boree Creek* been drawn to the department's attention?

Dr Watt—We are aware of them, Senator.

Senator FAULKNER—Has there been any departmental action as a result of these statements by the then Deputy Prime Minister being made public?

Dr Watt—No, Senator.

Senator FAULKNER—Nothing at the departmental level?

Dr Watt—No.

Senator Alston—For the very good reason that this is not some insider's account of how the process actually worked.

Senator FAULKNER—Wasn't the Deputy Prime-Minister an insider?

Senator Alston—This is simply Tim Fischer—

Senator FAULKNER—He was an outsider, was he?

Senator Alston—He was an outsider. He was not a decision maker.

Senator FAULKNER—Even you could not possibly argue that the Deputy Prime Minister was an outsider.

Senator Alston—He was an outsider. He was not a decision maker.

Senator FAULKNER—Come off it!

Senator Alston—He was obviously very pleased with the outcome, and I am grateful to him for that, but in so far as he is purporting to reflect adversely on the processes that were followed, then it is simply incorrect to have a view other than that of the Auditor-General who, after all, climbed all over this for many months, urged on by you; on a daily basis you were soothing him on. He did his best, we are grateful to him for that, and he found no impropriety. You cannot ask for much better than that.

Senator FAULKNER—He found very significant weaknesses with the administration of this element of the Federation Fund.

Senator Alston—A few helpful suggestions.

Senator FAULKNER—He also found, of course, as this committee has been able to establish, that 32 projects were announced in the last election campaign, 26 in coalition electorates. Maybe that is what Mr Fischer was referring to, don't you think?

Senator Alston—If Mr Fischer means by 'pork barrelling' that somehow we were trying to favour our own, the Auditor-General's report indicates that the coalition held 63.5 per cent of the seats in the House of Representatives and were allocated 61.7 per cent of the projects. So we basically got duded.

Senator FAULKNER—Have you raised with Mr Fischer the comments that he has made in his biography?

Senator Alston—No. I have not even had time to read his book.

Senator FAULKNER—You know about the statement about the—

Senator Alston—I saw it in the paper, as we all did, and I am sure it made your day.

Senator FAULKNER—No, it did not make my day; it just confirmed what I had already known, as a matter of fact. Let me assure you that it was not news to me.

Senator Alston—There are none so blind.

Senator FAULKNER—It only appears to be news to you. It is an insight that I share with Tim Fischer; you seem to be an outsider.

Senator Alston—But unfortunately it is not shared by the Auditor-General, and I would have thought he is probably more independent than any of us.

Senator FAULKNER—I ask about grant programs because I am concerned—and I address this to you, Dr Watt—that we receive an assurance that the department would not cooperate in any attempt to use any other departmental grant program as a procurable program in the upcoming election campaign. I seek that assurance from you.

Senator Alston—You can seek it, no doubt—

Senator FAULKNER—Thank you, that is what I was doing.

Senator Alston—but I think it is a very unfair suggestion given that, apart from your good self, no-one else has been suggesting that the department, in any shape or form, was party to any such activity, and given that there was not any impropriety on the part of the ministers—

Senator FAULKNER—Not only am I suggesting it but Mr Tim Fischer was suggesting it, and he was the Deputy Prime Minister.

Senator Alston—No, he is an outsider passing a comment on how successful he thinks the program was.

Senator FAULKNER—I am sure Dr Watt would acknowledge that issues relating to the administration of grants programs are very important ones for any department. I would hope that the department would learn some lessons from those matters that have been raised in this committee and by the Auditor-General. That is the only assurance that I am seeking from Dr Watt, and I hope he can give it.

Senator Alston—They probably learnt a lot more from the whiteboard experience than this one, I can tell you. They followed the book on this one.

Senator FAULKNER—I did follow the book—*The Boy From Boree Creek*.

Dr Watt—Senator, I do not have the advantage of having read Mr Fischer's book, but from the media reports I have seen, is Mr Fischer drawing a distinction between the Federation Cultural and Heritage Projects which the department administered and other Federation Fund projects? As I understand it, in relation to FCHPs, where we were directly involved in the administration of them, the Auditor-General's review gave us, hopefully, a clean bill of health.

Senator FAULKNER—I do not think there is any doubt, Dr Watt, what he is referring to. I am seeking an assurance that there was proper process in the lead-up to, and obviously during, the election campaign, and absolutely strict adherence to the caretaker conventions, which I know that you and the department are aware of, and I hope such an assurance could be given to the committee.

Dr Watt—There is certainly no doubt about the department's adherence to the caretaker conventions, Senator. We will be strictly adhering to those—as, I am sure, will every other department in Canberra. In relation to what lessons we learnt from this or previous grant program exercises, from what I have ascertained in my short period in the department, the department has a very high-quality grants process, and you can be assured that we will be continuing to follow a very high-quality grants process, as I am sure my predecessor did.

Senator FAULKNER—I assure you I will be following this issue closely as we move towards the next federal election campaign. Of course, I will be looking closely at behaviour during the election campaign.

Senator MARK BISHOP—I want to go back to an issue I was discussing before Senator Faulkner asked some questions—the Regional Arts Fund. Minister, we were discussing the press releases put out by you and Mr McGauran concerning \$9.6 million over three years for the three funds. We identified for the Regional Arts Fund \$2.5 million, \$2.5 million and \$2.6 million for the three years; for the Young and Emerging Artists, \$1.25 million in the first year and nothing in the two outyears; and \$0.75 million for the Major Festivals Initiative in the first year and nothing in the two outyears. I put to Dr Watt that those latter two funds, Young and Emerging Artists and the Major Festivals Initiative, had in fact been axed. Is that your understanding of the situation?

Senator Alston—No, if they had been axed they would not have got any money.

Senator MARK BISHOP—They have not got any money.

Senator Alston—They have been funded for one year.

Dr Watt—They are funded for one year, 2001-02.

Senator MARK BISHOP—Yes, they have been funded for 2001-02.

Senator Alston—I cannot recall precisely. What would quite often be the approach for something like the Regional Arts Fund, which has been in place now for coming up to 5½ years and has been very successful and there is clearly a need for that, is that we would make it plain that we want it to be ongoing. So you give a full three-year funding commitment. With respect to the others, you see a current need, you then give yourself the opportunity to make a judgment at the end of that budget period as to whether you extend it. So you are not axing it or extending it; you are simply saying 'Let's see how another year goes and we will make a judgment call then.'

Senator MARK BISHOP—That explanation strikes me as being a bit cute by half when I read the press statement that was issued on 22 May, budget night, which states:

In this Budget, the Government has announced its renewed support to the Regional Arts Fund, the Young and Emerging Artists Initiative and the Major Festivals Initiative, allocating them \$9.6 million over the next three years ...

I would have thought a plain reading of that sentence would have meant funding for the three programs over the three years.

Senator Alston—No, it is saying that none of those programs have been stopped. They are all being renewed and the total amount available is \$9.6 million. You can go into any level of detail, I suppose, in follow-ups, but the idea of this press release was to give people a general sense of what we were doing in major areas, and that is why we have given the global figure.

Senator MARK BISHOP—You are only funding the Regional Arts Fund for the three years and the other two funds for one year, aren't you?

Senator Alston—Yes, that is right.

Senator MARK BISHOP—The press release does not lead to that conclusion; it leads to the conclusion that all three funds are being funded for three years.

Senator Alston—I suppose that is why we have estimates—so that you can dig down for a bit more detail.

Senator MARK BISHOP—It says 'allocation of \$9.6 million over the next three years'.

Senator Alston—That is how much those three programs will get in total over the three-year period.

Senator MARK BISHOP—You do not think it is misleading?

Senator Alston—I am saying you can always drill down further if you want to, and that is what we are doing now, but you cannot cram every last detail into a press release. All that is doing is really indicating that each of those programs is being renewed and what the overall total cost is.

Senator MARK BISHOP—Minister, you put out a seven-page press release. It would not have been difficult to say, 'The funding for the Regional Arts Fund is being renewed for three years and the other two for one year,' would it?

Senator Alston—These accompany the budget, and obviously the budget papers will make that apparent. The idea of a press release, particularly on the night, is to give people a general sense of what you are doing in various policy areas. Those who are interested to know whether those programs are continuing will see that they are all being renewed.

Senator MARK BISHOP—The press release is a direct take from the budget papers. The words I read out are a direct take from page 75 of Budget Paper No. 2: 'The government will provide additional funding of \$9.6 million over three years to the Australia Council for' and it identifies the three funds. You say it in the budget papers, you say it in the press release, with exactly the same wording. The arts community understands that each of the three programs will be funded for three years, and it is only when we go into the nth degree of detail at estimates, some three weeks after the publication, that we find out that your intention and the arts community's expectation are different. I characterise that as misleading.

Senator Alston—As I understand it, Senator Ian Macdonald, who has got responsibility for regional issues, has put out a release making it clear what the precise breakdown is. The main thing that people look for in the budget, which is, after all, an annual event, is to know

whether they have got ongoing funding. Each of those programs has, and the total figure is spelt out. As I say, you could give a breakdown of a lot more of these announcements.

Senator MARK BISHOP—I am not criticising Minister Macdonald because he has correctly identified \$7.6 million for the fund.

Senator Alston—I am saying that he has gone further because—

Senator MARK BISHOP—He has correctly identified \$7.6 million for the Regional Arts Fund for the three years. I am saying to you that the budget papers and your detailed press release mislead the arts community.

Senator Alston—No, all they do is give you a figure at a higher level. If you want the detail, that comes out subsequently, and it has come out through Senator Macdonald's press release. Obviously, the organisations themselves would follow up. The purpose of the press release is not to be the last word on the subject but to indicate in reasonably broad terms what the government is doing in a whole range of areas. In so far as each of those initiatives has been successful and in so far as they each come up at budget time, we have indicated we are renewing our support and we have spelt out the totality of the funding.

Senator MARK BISHOP—The totality of your support is the \$7.6 million for the Regional Arts Fund for the three years and the other two funds for one year only, isn't it, although you don't state that in your press release?

Senator Alston—It is not for one year only.

Senator MARK BISHOP—The funding is for one year only.

Senator Alston—You always have the capacity in subsequent budgets to provide additional funding but, as I understand it, the allocation has been made over a three-year period for the Regional Arts Fund and for one year for the other two. I am not aware of any announcement that this is it for those. It is simply a matter of seeing how they perform over that 12-month period and then making a judgment about whether they should be extended. Maybe they should be varied; maybe there should be an add-on, a top-up.

Senator MARK BISHOP—Is the funding of \$2.5 million and \$2.6 million for the Regional Arts Fund secure?

Senator Alston—What do you mean by 'secure'?

Senator MARK BISHOP—Is that guaranteed?

Senator Alston—It is in the forward estimates; it is as secure as any other funding program. It has got a lot more security than 'l-a-w' law.

Senator MARK BISHOP—So it can be varied; it can be cut in the future?

Senator Alston—As I understand it, any forward projection in the budget figures can be varied, but what those numbers are telling you is that it is the government's intention to provide funding on an ongoing basis and, where it says it is not doing that, then that in itself is significant. You do not just go out there and promise to fund everyone for three years and then, in 12 months time, cut back. You make it plain what you are doing. On that basis, people would certainly be entitled to assume that the Regional Arts Fund will continue for three years.

Senator MARK BISHOP—But they cannot assume that the Young and Emerging Artists or the Major Festivals Initiative will continue, can they?

Senator Alston—For three years, no, they cannot.

Senator MARK BISHOP—They can assume that it is going to be funded for the next 12 months only.

Senator Alston—They can assume that in 12 months time they will be up for reconsideration. They certainly should not assume that it will be the end of the line. Otherwise, if we took the view that it was not a great project, why would we be funding it now?

Senator MARK BISHOP—Why have you funded those other two only for the one year?

Senator Alston—As I say, I cannot recall the detail but I assume it is because we felt we would like to reassess them after a 12-month period; whereas with the Regional Arts Fund, which has been going for more than five years, it filled a very big hole in previous arrangements and we wanted to make it absolutely clear that that is a top priority.

Senator MARK BISHOP—Those other two funds have been in existence since 1998, haven't they?

Dr Stretton—They were part of the government's election commitment in 1996, so I presume the funding arrangements—

Senator Alston—I do not know about Young and Emerging Artists. It was, too, was it?

Dr Stretton—Yes.

Senator MARK BISHOP—So they have both been in existence since 1996. Have you done any review or evaluation of those two schemes?

Dr Stretton—Not that I am aware of. They are schemes which the Australia Council runs; I am not sure whether they have done reviews, Senator.

Senator MARK BISHOP—They have not done any; they advised us of that earlier.

Dr Stretton—I have just been informed that the Australia Council will be doing a review of Young and Emerging Artists this year.

Senator MARK BISHOP—What about the Major Festivals Initiative?

Dr Stretton—We are not aware of anything on that but we can take that on notice.

Senator Alston—Presumably that will inform the judgment we make in 12 months time.

Senator MARK BISHOP—It is handy that the department has just told you that.

Senator Alston—I am saying that that will be an additional input but we can make our own judgment in any event.

[12.46 p.m.]

Senator FAULKNER—Minister, the only other questions I wanted to ask in this outcome really go to output 1.2, the National Council for the Centenary of Federation. Mr Barr, what is the assessment of the national council, given that we are now into June of the centenary year? Does the council have any reflections at this point? I appreciate that we are at the mid-point of the year, if you like, and that this question might be better asked at the end of the year. If you said that to me, I would probably accept that, but we have had a very significant number of the centenary events now and I wondered whether there were some assessments and impressions that the national council has.

Mr Barr—Yes, Senator. Halfway through the year, we have been quite pleased with the degree of community involvement and interest in the year, witnessed perhaps mostly by the

crowds at the major events which have taken place so far. We have audience and crowd numbers for Sydney, Brisbane and Melbourne, which are all very encouraging indeed, showing that probably about a million people have attended or participated in those events. At that level, the year has been a great success. The extent of media coverage and media interest in the wide range of events that have taken place have also been very encouraging. If that continues in the second half of the year, it will, I am sure, contribute to a very successful year overall.

Senator FAULKNER—What about specifically the Federation Week in Melbourne? What are the responses, feedback and assessments that the National Council has been able to make about that? It has very much been a centrepiece of the centenary year.

Mr Barr—Yes, indeed. The week commenced with a major street parade in Melbourne and there were perhaps 300,000 people who witnessed that. It was followed by a number of major celebratory and ceremonial events over the balance of the week, not least, of course, on 9 and 10 May, the centenary of the opening of the first Commonwealth parliament.

Senator FAULKNER—Generally, is the national council engaged in ongoing assessments of Federation activities?

Mr Barr—We do undertake some surveys of the public's level of awareness of our advertising and our communications strategies more generally, but it would be the states and territories who have hosted the centrepiece events to date who would have more information on the specific events.

Senator FAULKNER—What about the centenary medallions for school children? Do you have any assessments or insights there?

Mr Barr—I can only provide some anecdotal evidence. We are planning shortly to write to principals of schools and seek some advice and response to a very short questionnaire on what they did in their schools as part of the presentation process.

Senator FAULKNER—How many medallions were minted? Is 'minting' the right word? You mint medallions, don't you? You mint medals, but whether you mint medallions I am not sure.

Dr Watt—They were minted.

Senator FAULKNER—I knew you would correct me if I was wrong, Dr Watt.

Mr Barr—A little over two million were minted.

Senator FAULKNER—Have you got a precise figure for that at this stage?

Mr Barr—2,081,000.

Senator FAULKNER—As Dr Watt said, they were minted at the Royal Australian Mint. What was the cost of the minting?

Mr Barr—It was pretty much \$2 million. Unit price, packaging and distribution came out at about \$1 a unit.

Senator FAULKNER—Those figures are more than just the minting; it is the packaging, distribution and the like?

Mr Barr—Yes, and the development of a teachers' resource kit which we distributed to primary schools as well.

Senator FAULKNER—Would it be possible to take on notice perhaps disaggregating that figure for us? You may not know it all precisely at the moment, but what you are able to

provide in terms of the distribution, packaging, minting of the medals, the resource kit and so on. Could you take that on notice?

Mr Barr—Yes, certainly. Would it be possible to deliver that by way of the contracts? We had a contract with the Mint, we had a contract with the distributor, and we had a contract to produce the teachers' resource kit. If I gave it to you in terms of those three contracts?

Senator FAULKNER—Yes, I would appreciate that. Thank you very much. The medallions themselves, as I understood it, were an idea that was generated in the National council—I am not sure; you might be able to share that with us. But they were certainly an administrative responsibility of the National council; is that right?

Mr Barr—Yes, it was an idea from the government and they asked the National council to administer to it.

Senator FAULKNER—The idea being that every primary school student in Australia received one; would that be right?

Mr Barr—Yes, that is correct.

Senator FAULKNER—The National council had responsibility for handling issues in relation to production, distribution and all the other elements surrounding the centenary medallion?

Mr Barr—Yes, that is correct. We were responsible for putting in place the contractual arrangements for the production, distribution and the teachers' kit. We had a need to liaise with, obviously, the various state education authorities to ensure—

Senator FAULKNER—Sure. Where did the idea—I am not suggesting it was a bad idea at all—generate that the medallion be presented to primary school-age children?

Mr Barr—From the government.

Senator FAULKNER—That was, if you like, the government remit to you and you back to them.

Mr Barr—Yes.

Senator FAULKNER—Did the national council develop a set of guidelines and processes by which this was to occur?

Mr Barr—With the assistance of the consultations with the state education authorities, we did so.

Senator FAULKNER—Let's talk about the state education authorities then: how did you engage the state education authorities in what was a substantial task, was it not, the presentation of a medallion to every primary school-age child in the nation? How did the national council go about involving the state education departments in this?

Mr Barr—We put in place a reference group of departmental officials at the state and territory level and they provided us with ongoing advice.

Senator FAULKNER—When you say 'departmental officials at the state and territory level', do you mean your department or do you mean state departments of education?

Mr Barr—The latter.

Senator FAULKNER—Was there a coordinating role for the national council in this?

Mr Barr—Yes. They were providing us with advice on how best to distribute the medallions. There was also some advice from members of the national council themselves—who were, in one instance, the minister for education in the state and, in several other instances, ex-ministers for education in the state—and they were able to provide us with some advice and assistance in bringing the project to fruition.

Senator FAULKNER—Did you establish, via this process, a consistent approach in all the states and territories or did it differ across the states and territories depending on local factors and considerations?

Mr Barr—It varied from state to state, territory to territory, and it varied a little depending on the education system.

Senator FAULKNER—The private versus public effectively—

Mr Barr—Yes, and the Catholic system.

Senator FAULKNER—Understanding that, did you develop a document that went to broad guidance?

Mr Barr—I am not sure exactly what you mean by ‘broad.’

Senator FAULKNER—Broad guidance, guidelines or processes for which the state and territory departments followed.

Mr Barr—No.

Senator FAULKNER—Did you have anything in writing?

Mr Barr—It was more an interactive process and it was more a process determined in that reference group and by the consultation that was undertaken. It had regard to local circumstances and the level of cooperation and support that each of the different education authorities was able to provide.

Senator FAULKNER—Generally, did you get cooperation from them?

Mr Barr—Yes, indeed. The education authorities saw it as a great project and they wanted to assist wherever they could.

Senator FAULKNER—They were supportive then?

Mr Barr—They were very supportive.

Senator FAULKNER—So how did it work? What was the process you determined?

Mr Barr—The initial difficulty was to determine the numbers that would be required and by school. We had a broad indication from the year 2000 of what the primary enrolments might be, but obviously we needed to have 2001 enrolments for more accurate figures. We could do that following the census that the education authorities undertake in February of each year and those figures were then provided to us to enable the number of medallions per school to be ascertained and then packaged and dispatched. We also needed to allow for the possibility obviously of some changes in enrolments between February, when the census was taken, and the end of April, when the medallions would actually arrive in the schools. I corresponded with all the principals and provided them with contact details so that, should there be a shortfall, then they could come back to us and seek some additional medallions.

Senator FAULKNER—Did you end up with, if you like, a central register of—did you go to the level of individual schools?

Mr Barr—Yes.

Senator FAULKNER—Centrally, at the national council?

Mr Barr—Yes. One of our consultants prepared a database by school.

Senator FAULKNER—By school?

Mr Barr—Yes. This was provided to the contractor who was responsible for packaging and dispatching the medallions.

Senator FAULKNER—How many thousand schools approximately? I know there are just a little over 3,000 secondary schools in Australia.

Mr Barr—There is a little over 8,000.

Senator FAULKNER—What you had is, effectively, in layman's language, a list of 8,000-odd schools and, next to that, a number of medallions that would be dispatched to the schools?

Mr Barr—Yes.

Senator FAULKNER—Roughly, is that how it worked?

Mr Barr—Yes, and we kept a reserve for contingencies and the possibility of changes between enrolments from February to end April.

Senator FAULKNER—I understand. You had a consultant who did that for you. So, effectively, while you received cooperation from the state and territory education departments, there was no middleman here—it was a direct relationship between the national council and the school; is that right?

Mr Barr—Depending on what the distribution mode was from state to state or territory to territory, the education authorities played a pretty big part in it.

Senator FAULKNER—Yes, but you dispatched directly medallions to each and every primary school in Australia, or did you not?

Mr Barr—No, we did not. In some instances they were dispatched to a central point and the education authorities, using their internal distribution networks, then forwarded them on to the schools.

Senator FAULKNER—When you say 'some instances', some states you did directly and some you did not?

Mr Barr—Yes.

Senator FAULKNER—Could you let me know which states and territories you did directly and which you did not.

Mr Barr—I would have to take that on notice and it will vary a little again because of the education system. There are 24 variations here that we are playing with, that is all.

Senator FAULKNER—I would like to know about them, and I would like to know about them today, if I could. I know that the chair wants to break for lunch. This is quite an area of strong interest that I have; I want to explore this in some detail after the luncheon break. If I could flag that, so you might have a look over the break, Mr Barr.

Mr Barr—Certainly.

Senator FAULKNER—I really would like to look closely at processes, and I would like to flag with you I am very interested in the state of Queensland. That might help focus your energies.

Mr Barr—Yes, indeed.

CHAIR—We will break for lunch.

Proceedings suspended from 1.04 p.m. to 2.06 p.m.

CHAIR—We will resume the hearing. Senator Faulkner has the floor.

Senator FAULKNER—Mr Chairman, before lunch I was addressing the issue of the centenary medallions for schoolchildren. We were talking about the role of the states and territories education departments, amongst other issues. I wonder whether Mr Barr or Dr Watt might be able to table the letters that went to members of parliament in relation to their involvement in the presentation, if they are available.

Mr Barr—I do have one—a form letter, not a signed version.

Senator FAULKNER—Thank you. We will make copies of that for the committee. Mr Barr, what was the plan in terms of the attempt at, if you like, national coordination—correct me if I am wrong—in getting the appropriate date for the presentations of the medallions nationwide?

Mr Barr—The national council had a view that 9 May would be the most appropriate date for the medallions to be presented to the schoolchildren. But we appreciated that we could not be too prescriptive about that, so in the materials that we prepared and forwarded to schools we encouraged schools to try and make the presentations on or about 9 May was perhaps the way it was interpreted.

Senator FAULKNER—Obviously to tie in with the centenary of the opening of federal parliament?

Mr Barr—Yes, indeed.

Senator FAULKNER—Have you got any feedback yet as to what proportion would have been presented on 9 May? I appreciate you may not have this, but whether by and large that was achieved?

Mr Barr—No, we do not have any data on that as yet.

Senator FAULKNER—Are you seeking that?

Mr Barr—We are intending to survey the primary schools across the country and we hope to get some indication from that as to exactly when the medallions were presented.

Senator FAULKNER—The idea for this was generated in government and communicated to the national council. Can we just go through that process so the committee understands it, Mr Barr. When was the decision communicated to the national council to go forward with the centenary medallion concept?

Mr Barr—I could not be 100 per cent certain, I will take that on notice if I could. It was several years ago. The money was received two budgets ago. It has been at least two years in the planning.

Senator FAULKNER—Was that a ministerial directive?

Mr Barr—I cannot recall the exact form. It could have come, in fact, from the Prime Minister.

Senator FAULKNER—The idea here being that, having received that funding, the national council was tasked with the responsibility of medal design, production and distribution really from go to whoa? That is as I understand it, but correct me if I am wrong there.

Mr Barr—No. The administration of the project was left to the national council.

Senator FAULKNER—Were the state and territory departments of education cooperative with the general concept—appreciating that not all could do it at that time—of working to present the medals on 9 May?

Mr Barr—Yes, we have no reason to doubt that they were not on board for that.

Senator FAULKNER—The reference group would have given you negative feedback if that was not the case, I assume.

Mr Barr—Correct. The date was the historically significant date too because medallions were provided in 1901 and 1951 as well.

Senator FAULKNER—That is entirely appropriate. Before the break, I was asking you about the national council's approach to the distribution of the medallions and you mentioned to me that it was not always the case of the national council distributing medallions to individual schools; sometimes there were bulk orders, I think is what you were suggesting. I just wondered if you would give me a little bit more detail of that. I think I flagged this before the break?

Mr Barr—Yes, indeed. I have been able to find that information from the national council secretariat. In Queensland, Victoria, Tasmania and the independent schools in Western Australia, the national council arranged distribution of the medallions directly from the warehouse to each school.

Senator FAULKNER—Sorry, Queensland, Victoria, Tasmania?

Mr Barr—And independent schools in Western Australia. In New South Wales, the Northern Territory, South Australia, the ACT and government and Catholic schools in Western Australia, the distribution was implemented by the state education departments. In those cases, the pre-packaged parcels of medallions were delivered in bulk to a location nominated by the relevant education authority.

Senator FAULKNER—I do understand now what you are saying to me, I probably did not really quite conceptualise this. Although there was in that latter category, bulk handling by the education departments, did you include in that individual packets or parcels or whatever you describe it, for each of the schools?

Mr Barr—Yes. Then they used their state or territory distribution processes on your behalf effectively to get it to the schools.

Senator FAULKNER—With Queensland, Victoria, Tasmania and the non-Catholic independent schools in Western Australia, it was directly processed by the National Council for the Centenary of Federation and directly dispatched from the national council?

Mr Barr—Yes, using our warehouse facility and our contractor and they were dispatched from the warehouse in Queanbeyan to each individual school.

Senator FAULKNER—You had one contractor for the whole of the country which would have been in some cases to individual schools. In other cases, packaged for individual schools, but sent to a central location for distribution?

Mr Barr—Correct.

Senator FAULKNER—All out of the one warehouse?

Mr Barr—Yes.

Senator FAULKNER—Obviously handling and dispatch would have been another cost for the national council?

Mr Barr—Yes. As part of the contract with the distributor.

Senator FAULKNER—I think you referred earlier to the distribution contract. In relation to the second category—the, if you like, bulk postings to those states and territories that handled the school distribution themselves—did you still have individual parcels labelled for schools and so forth?

Mr Barr—Yes, that is right, with the numbers that we had been provided with by the relevant authorities. We were doing as much of the work as we possibly could without imposing too much on the education authorities. We were very happy to accept their help and assistance where it made sense.

Senator FAULKNER—Did you get any ministerial guidance or input on how this should be handled?

Mr Barr—No. The administration was left to us. All of the details we have been discussing so far were left to us. I would add we had always envisaged that members of parliament would be part of the project. Towards the end of March, I forwarded a note to the minister informing him of where we were at and what the arrangements were to be.

Senator FAULKNER—Would a copy of that note be able to be made available to the committee?

Mr Barr—I am not sure that is the usual practice. In effect, it was a departmental advice to the minister.

Senator FAULKNER—Given the minister is not here I would not normally ask you. What choice do I have, Dr Watt?

Dr Watt—I do not think you have much choice at all, Senator. Perhaps we can undertake to raise it with the minister for you.

Senator FAULKNER—Thank you. What I do not understand about this is was there a security issue involved? It seems to me that there would be. Were there clear instructions that the individual packages were to be opened at individual schools? When these ones went to the central location, to those states, could they be ripped open and repacked?

Mr Barr—Not to my knowledge. The understanding we had with the education authorities was that we were utilising their distribution channels in those cases. They would forward any number of communications to the schools involved and we would be just piggy-backing on that system.

Senator FAULKNER—Just run that past me again. What do you mean by piggy-backing on the system?

Mr Barr—Where the state education department had an established distribution system, all we were doing was piggy-backing on that.

Senator FAULKNER—Was there guidance in terms of the opening these parcels? Were these parcels individually addressed to schools?

Mr Barr—They were individually addressed to the principal of the school.

Senator FAULKNER—Did you make it clear they were to be opened at the school?

Mr Barr—No, we did not.

Senator FAULKNER—They were addressed to the principal?

Mr Barr—They were addressed to the principal.

Senator FAULKNER—You just assumed they would be opened at the school?

Mr Barr—Assumed that would be the case.

Senator FAULKNER—Were they?

Mr Barr—I am not sure I follow you?

Senator FAULKNER—Were they opened at the school?

Mr Barr—I have no way of knowing.

Dr Watt—We have no information to suggest they were not.

Senator FAULKNER—I am just asking if you did. Who did this distribution for you? You mentioned a warehouse in Queanbeyan. What was the name of the company?

Mr Barr—National Mailing and Marketing. Their subcontractor for the physical distribution was Star Track Express.

Senator FAULKNER—The reason for my question is I just wanted to check if they went through the Australia Post system or if there was effectively a nationwide courier system. There are obviously two alternatives there. It is the latter?

Mr Barr—It is the latter, yes.

Senator FAULKNER—A courier system. Thank you very much. What is actually in these packets? Is it anything other than a recorded number of medallions?

Mr Barr—Yes, there was a letter from me providing information that if there was a shortfall who to contact. We would then attempt to meet that shortfall.

Senator FAULKNER—A letter from you?

Mr Barr—Yes.

Senator FAULKNER—Anything else?

Mr Barr—Not in those packages, no.

Senator FAULKNER—When we say medallions, it is not just medallions, is it? It is medallions and a little plastic presentation.

Mr Barr—They were in a presentation sleeve and there was a little piece of information on the sleeve. It is all sealed.

Senator FAULKNER—I have seen many of them. That is what we are talking about?

Mr Barr—That is what we are talking about, yes.

Senator FAULKNER—This is important because when we say medallions, it is medallions plus the little explanation of what it is and then the plastic cover. It is that in the packages plus a letter from you?

Mr Barr—Yes.

Senator FAULKNER—Is there anything else in the packages?

Mr Barr—No, not from our point of view.

Senator FAULKNER—Was there any additional guidance provided to the state or territory education departments that were dealing with these things and who were handling the distributions through their internal systems?

Mr Barr—Not in writing. It would have simply reflected the established understanding we had that they were assisting us in the way that had been agreed.

Senator FAULKNER—Your letter would have been in the individual packages in that case also?

Mr Barr—My letter was really addressed to the school principal. It was in the package.

Senator FAULKNER—It was in all packages regardless of whether it was centrally distributed or distributed directly to the school by your courier. That is all I am checking.

Mr Barr—Yes.

Senator FAULKNER—You have tabled for us the advice dated 5 April 2001; that went under whose signature to whom?

Mr Barr—That is the minister's signature. It went to each member of parliament.

Senator FAULKNER—Let us be clear about this. Did it go to members of parliament or members and senators? I just want to be clear whether it was members of the House of Representatives or members of the House of Representatives and senators. All members of parliament?

Mr Barr—Members of the House of Representatives.

Senator FAULKNER—Did senators receive any information about this?

Mr Barr—Not in the same way as this material and this letter was provided.

Senator FAULKNER—Could you just share with us what, if anything, senators received?

Mr Barr—I am not a hundred per cent certain what information all senators received. I am reasonably confident that we did not correspond with senators in the same way as we corresponded with members of the House of Representatives. I am sure that we had briefed senators—the spokespeople for the major parties—on the project, but we may not have done more than that.

Senator FAULKNER—That is a good point that you raise because, believe it or not, one of my functions is the shadow minister for the Centenary of Federation, and sometimes I am not clear whether I receive an item of correspondence in that capacity or as the result of a general mail-out that is being received by senators. Hence my question. In terms of the general letter that went out on 5 April, that was to members of the House of Representatives?

Mr Barr—Yes.

Senator FAULKNER—I am not critical of that by the way, that is not illogical. I am sure other senators will quickly jump on the back of the National Council for the Centenary of Federation for this, but not I. Had you also given advance warning to each and every primary school in Australia of what was going to occur?

Mr Barr—Yes.

Senator FAULKNER—You had a letter along with the medallions inside the package and there had also been previous advice to schools.

Mr Barr—Yes.

Senator FAULKNER—You got cooperation from the state and territory education departments for that?

Mr Barr—They would have been informed through the reference group that we were planning that correspondence.

Senator FAULKNER—The council encouraged members of the House of Representatives to attend schools in their electorates because of the significance of the centenary celebrations?

Mr Barr—Yes. We had hoped that members would be able to participate in the project because it was linked to 9 May. It offered an opportunity to explain what was going to happen in Melbourne on 9 and 10 May.

Senator FAULKNER—Did you get much feedback from the members of the House about how that went? It is a good idea as far as I am concerned. I just wondered if you got much feedback.

Mr Barr—No feedback to my knowledge.

Senator FAULKNER—One of the problems that arose—we ought to be honest enough here to acknowledge it—is the fact that you had a commemorative sitting of the parliament in Melbourne on 9 and 10 May and you had schools being encouraged to distribute medallions on 9 May if possible, and obviously members of parliament, whatever skills they might have, cannot be in two places at once. I think the National Council obviously would acknowledge this. That is why you tried to put in place other procedures, isn't it, because of that circumstance?

Mr Barr—Correct.

Senator FAULKNER—For the benefit of the committee it might be useful just to put those on the record, Mr Barr.

Mr Barr—I am not sure exactly what you mean.

Senator FAULKNER—There was a problem, wasn't there, that members of the House of Representatives who perhaps wanted to directly present the medals—some did anyway from all sides of politics as I understand it. That is correct, isn't it?

Mr Barr—Yes, that is correct.

Senator FAULKNER—Some managed to but others were unable to because of the constraints of the national council encouraging presentation on 9 May and all parliamentarians being in Melbourne on 9 May.

Mr Barr—Yes.

Senator FAULKNER—So the minister wrote to members of the House of Representatives about what could be done in that circumstance and made that quite clear if you wanted a symbolic presentation.

Mr Barr—Yes.

Senator FAULKNER—I thought it might be useful to put on the record what was said.

Mr Barr—Sorry, I did not quite understand the original question. The intention had always been to involve members wherever it was possible to do so. Perhaps even from as early as August 2000 we provided some materials to members of the House of Representatives to alert and raise awareness about the coming medallions project. As we progressed through 2001 we saw the dilemma that you mentioned. The possibility then of involving members in the lead-up to 9 May was more seriously examined. The medallions themselves were to be in the schools at the beginning of the term, which varied a little around the country by a week or two, so the schools themselves would know in concrete terms what they were then receiving. They had a series of correspondence from the national council. This took us to the further step of allowing the symbolic presentation to the schools and clearly involving the local members

in a way that allowed them to be involved in as many primary schools in their electorates as they could arrange in the time available.

Senator FAULKNER—That was done on the basis of two medallions per school, wasn't it?

Mr Barr—Yes, that is correct.

Senator FAULKNER—The minister suggested in his letter that this be done at a collective gathering. I do not know how many collective gatherings there were. I was going to ask you how many there were.

Mr Barr—Hopefully we will get some feedback from our survey on that.

Senator FAULKNER—I know there were some.

Mr Barr—Yes.

Senator FAULKNER—It may be a limited number but I know that some availed themselves of that opportunity.

Mr Barr—It made practical sense because on average there could be something like 50 primary schools in an electorate. To get around to 50 individual schools might have been more than was feasible from the local member's point of view.

Senator FAULKNER—How many members of the House of Representatives sent back a request form for the extra medallions to Mr Manning at the national council?

Mr Barr—Twenty-three.

Senator FAULKNER—How many extra medallions were sent as a result of those requests?

Mr Barr—That figure I have not got but I can certainly take it on notice. Often they were collective; often they were individual schools. We will need to examine the 23 replies.

Senator FAULKNER—There is a bit of flexibility in there. Some of those members could have handed out two medals symbolically for all the schools in their electorate. Others who were entitled might have a couple of medallions per school. Is that what you are saying to us?

Mr Barr—Yes. It was really up to the member to decide. If, for example, he only wanted to go to five schools in his electorate then he could have told us that and we would have provided the appropriate number of medallions.

Senator FAULKNER—Also there was the commemorative certificate that had the facsimile signature of the Prime Minister and could be signed by the federal member and the primary school principal.

Mr Barr—Correct.

Senator FAULKNER—When did they go out?

Mr Barr—I think it was up to the individual member to seek those certificates from the minister's office. I would need to double-check that.

Senator FAULKNER—The letter said:

You will also shortly receive a commemorative certificate for each primary school that will be signed by you as the local federal member, the Prime Minister, and with a space for the signature of the primary school principal.

Were they only available on request?

Mr Barr—I am just not 100 per cent certain of the distribution. I will need to have that double-checked.

Senator FAULKNER—To be fair, the minister's letter said:

You might want to present them personally, you might want to post them.

So there was a bit of flexibility in this anyway.

Mr Barr—Yes. It was up to each member to take advantage of whatever part of the arrangement they thought made sense for them.

Senator FAULKNER—The national council also sent the teachers guide direct to each school?

Mr Barr—Yes.

Senator FAULKNER—We talked about two items of correspondence: one in the medallion parcel and another letter explaining these processes and what was going to occur with the centenary medal. Was the teacher's kit included in the first run or were there three individual sets of correspondence going to the schools?

Mr Barr—I think there may have been an early alert, then the teachers kit with further correspondence and then the third piece with the actual medallions themselves. The teachers kit went out at the start of the school year with the intention to allow it to be absorbed a little before the medallions themselves actually arrived at the school.

Senator FAULKNER—In recent months, did the minister correspond with the national council about the medallion process and presentation issues?

Mr Barr—The correspondence of 26 March from me to the minister informing him of where we were at and raising some possibilities of how the members of the House of Representatives might be involved. From that correspondence there was probably discussion between officials and the minister and the minister's office. It is more of that sort that followed from the correspondence that I originated.

Senator FAULKNER—Yes, that was generated within the national council, was it not? It did not come as a result of an earlier piece of correspondence from the minister. It was more the national council saying to the minister, 'Here's a status report of what we're planning to do.' In broad brush, I think that is right, isn't it?

Mr Barr—Yes, that is right. From that there was further discussion with the minister about the sorts of issues you just mentioned.

Senator FAULKNER—Were all the national council's ideas picked up?

Mr Barr—They were picked up and embellished. The certificates being the particular example of how they were embellished.

Senator FAULKNER—How were the certificates embellished?

Mr Barr—The idea, the concept of the certificates—that was not our idea.

Senator FAULKNER—The minister came back with that idea?

Mr Barr—The government came back with that idea, yes.

Senator FAULKNER—I am only asking how they communicated.

Mr Barr—It was communicated through the minister's office.

Senator FAULKNER—It would be a little bit more formal than that, would it not? Someone would drop you a note or did they just pick up the phone and say, ‘We want certificates going out to all primary schools in Australia?’

Mr Barr—The national council and the department were involved in part. From recollection, there may have been email traffic but I am not sure there was anything more formal than that.

Senator FAULKNER—What is the responsibility of the national council here and what is the responsibility of the department? It is best if I just ask you to explain that distinction to me.

Dr Watt—As I understand it the department provides the secretariat to the national council and that secretariat works to the national council. The department is, from time to time, asked to provide advice on issues relating to the general Centenary of Federation. I am not aware of what all those pieces of advice may have been. I think on issues of the Centenary of Federation, we do not play a big role.

Senator FAULKNER—Mr Barr, are you drawing a distinction between yourself and the national council, or yourself and the department? I am trying to understand what is being said here?

Dr Watt—So am I. I think the distinction Mr Barr is drawing is between the council itself as opposed to the secretariat. Is that not your distinction?

Mr Barr—It is very much grey areas here and I wear several hats. The distinction I was trying to draw in particular was between arrangements for the physical distribution of the medallions and the separate issue of the certificates. My original advice and planning report to the minister did not cover certificates; that was an idea that came up afterwards. In administering that part of it, there were shared responsibilities between the national council and the department.

Senator FAULKNER—Yes, I heard that. Let me take it back a few steps so I can try and understand this. Your correspondence to the minister of 26 March this year went to recommendations of the national council that had been approved by the national council itself?

Mr Barr—It certainly had been discussed and within committees of the council.

Senator FAULKNER—Yes, generally ticked off at the level of the national council with you acting as the general manager for the national council and communicating those views to the minister?

Mr Barr—Yes, and sought his views on ways of involving members of the House.

Senator FAULKNER—That prompted a response of some description, but not a letter—email traffic, a telephone call or something—that means that, added to the suite of ideas that comes forward from the national council, is the additional idea of the certificates?

Mr Barr—Correct.

Senator FAULKNER—What other additional ideas came back?

Mr Barr—The additional idea of the two medallions per school for the symbolic presentations.

Senator FAULKNER—Any other additional ideas?

Mr Barr—No, they were the principal ones.

Senator FAULKNER—They were the two ideas?

Mr Barr—Yes.

Senator FAULKNER—Were those two issues handled at a departmental level, as opposed to national council level?

Dr Watt—I will have to defer to those with a longer memory.

Mr Barr—They were shared. We looked at the issue and because we were so intimately involved with the medallions, it made sense to continue to have some involvement. They were shared a little with the department.

Dr Stretton—I can explain. The department was asked to design the certificate. We used the secretariat to the Centenary of Federation to arrange for the distribution. They obviously had the best source and information on the number of primary schools in each electorate—therefore the number of certificates which would need to go to each member of parliament.

Senator FAULKNER—That would not affect the design, that would just affect the printing, wouldn't it?

Dr Stretton—That is what I am trying to explain. Different parts of the exercise were done by different parts of the broader organisation.

Dr Watt—In our public relations area, we had limited design capacity. It is not surprising when we were asked for advice or to help with the design.

Dr Stretton—I think Mr Barr's area was able to arrange for the printing of the certificates using some of their contractors.

Senator FAULKNER—When did these ideas float back from the executive wing—I am using that advisedly, because I am not quite sure how it was communicated. If someone can tell me, I will not use the words 'float back'—but at this stage it appears like a telephone call or email traffic. You are assuring me there is no letter from the minister.

Mr Barr—The national council has not received a letter from the minister, to my knowledge.

Senator FAULKNER—Surely the department is not going to go to the trouble of designing certificates and paying for printing and all these sorts of additional costs: the use of the public relations area and all the costs associated with the extra two medallions per school without some sort of formal indication from the minister or government that that was wanted? I do not want to use this terminology—that by osmosis you got some message stick that came from the executive wing. If someone could just tell me, that would be terrific and we can move on.

Dr Watt—I am sure it was not transmitted by osmosis.

Senator FAULKNER—No, I know it was not.

Dr Stretton—There are obviously ongoing discussions between the department and the minister's office. I cannot recall a final email that said, 'Yes, go ahead.' There must have been a final email which said, 'Yes, go ahead.' I remember providing a first draft of the design and some comments came back on changes to that. At one stage we must have had an email that said, 'Yes, we're happy with the design. Please print.'

Senator FAULKNER—An email, okay. What were the extras costs involved with these new ideas?

Mr Barr—My understanding is that the extra costs of the certificates was about \$21,000.

Senator FAULKNER—Did the national council pay for that?

Mr Barr—The department paid for that.

Senator FAULKNER—What about the extra costs in relation to the extra medallions? I imagine it would not be great.

Mr Barr—There was not really a direct cost there, because we had built in this contingency in the production process of the medallions. It was really drawing down that stock of already produced medallions.

Senator FAULKNER—Did this idea about the certificates go forward to the national council itself?

Mr Barr—No, the national council was informed of the fact of the certificates. It was for information in the sense that it was a proposal from the government to enhance the project, and it did not involve any direct costs to the council's budget.

Senator FAULKNER—What has happened to the national council's role to advise on these Centenary of Federation issues? I am surprised to hear that the national council was not asked for a view about the appropriateness or otherwise of the certificates. Is that not their role? They were established with tremendous fanfare, but they were ignored.

Mr Barr—Not so much ignored; they were informed.

Senator FAULKNER—They were told; they were not informed, Mr Barr, were they? Be fair.

Mr Barr—The project had originated from the government and we had been asked to administer it. It was seen as an embellishment of the program to add in the certificates.

Senator FAULKNER—Yes. But was it an embellishment that the national council approved of?

Mr Barr—The national council, as a group, was not directly asked for its view on that embellishment.

Senator FAULKNER—They did not get a say. So you cannot tell me whether the national council approved of it?

Mr Barr—I can tell you the national council was not asked for a view.

Senator FAULKNER—What happened when it was noted at the national council that it was going to happen? Was there any discussion about it?

Mr Barr—It happened at a time outside of meetings of the council. The CEO wrote to council members to inform them of the embellishments.

Senator FAULKNER—When you say the national council was informed, the CEO wrote a letter to them. It was not raised even at a meeting.

Mr Barr—That is correct. Although at the following meeting on 11 May—

Senator FAULKNER—After the event.

Mr Barr—there was no concern expressed.

Senator FAULKNER—A bit late by then; it had happened.

Mr Barr—People could have expressed concern if they felt it was inappropriate or otherwise.

Senator FAULKNER—The national council conceptually did not want a political involvement in these sorts of ceremonies, did it?

Mr Barr—Certainly not a party political—the whole year has seen to been not of that sort. As I said in replying to some of your earlier questions, we had always assumed that members would be involved in this project because of the nature of it and its link to the centenary of the opening of the Commonwealth parliament.

Senator FAULKNER—It had always been envisaged by the national council that members of parliament would be involved in the presentation of medallions?

Mr Barr—Somehow involved in the project. We had provided shell media releases for members to use to explain the project and to raise awareness about the project.

Senator FAULKNER—But not the presentation of medallions, Mr Barr.

Mr Barr—As we have discussed, we have wanted MPs to be involved in the lead-up to 9 and 10 May.

Senator FAULKNER—Yes, but not the presentation of medallions. That happened very late in the piece, did not it?

Mr Barr—Yes, it happened post my advice to the minister of 26 March.

Senator FAULKNER—That was the minister's idea.

Mr Barr—The government's idea—I am not sure exactly where—

Senator FAULKNER—All right, the government's idea, yes. It was very late in the piece.

Mr Barr—Fairly late in the piece, yes.

Senator FAULKNER—There was no concept on the part of the national council that you would have that political involvement in the medallion ceremonies at the school.

Mr Barr—We had envisaged that the ceremonies would involve the school community and the principals more generally. Within their resource kit, we raised a number of possible options for the presentation. Certainly, the possibility of involving the local member would have been included in that sort of understanding. We had hoped at one stage that members could be in schools in the early part of 2001 with a mock-up of the design of the medallion and explaining its significance and the importance of the events that were going to happen in Melbourne in May.

Senator FAULKNER—It was never intended that this be extended to senators; is that right?

Mr Barr—Yes. Regrettably now we should have thought more broadly.

Senator FAULKNER—I am not critical of that. I just want to be clear. It was never intended to extend it to senators.

Mr Barr—No. It was assumed that members of the House would be interested in their electorates.

Senator FAULKNER—I think that is fair enough, Mr Barr. I just want to be clear. As I said before, I am not critical of that; I want to be clear on it. It was never intended to extend it to political candidates, was it?

Mr Barr—No, not to candidates; it was members.

Senator FAULKNER—The National Council for the Centenary of Federation worked hard to ensure it did not get politicised like that, did they not?

Mr Barr—We would argue we have worked hard to do that for all of our events, that they have all been inclusive.

Senator FAULKNER—Are you aware of the letter that Senator Tchen sent out to certain schools in Victoria?

Mr Barr—No, I am not.

Senator FAULKNER—So you cannot explain to me how he sent out a letter, contrary to all the advices that you had been providing the committee, saying:

I have great pleasure in forwarding the attached letter from the Prime Minister to the students of—

I will not identify this primary school because it went out to a number; I am happy to provide it for you if you really want to see it—

...with a request that it be read out to the children during presentation.

I would dearly love to join and share the day with you and the children, regrettably I am unable to do so as all members and senators are required for the Special Sittings in Melbourne. Please accept my apologies. If you feel that the presence of a politician would help the children get a better understanding of the history, the endorsed Liberal Candidate for Chisholm, Mrs Ros Clowes, has offered her service to assist you.

How can that happen?

Mr Barr—I have no knowledge of any of that, Senator.

Senator FAULKNER—It is a pretty serious issue, Mr Barr.

Senator TCHEN—Why is it serious, Senator?

Senator FAULKNER—We know you have not been concentrating.

Senator TCHEN—Are you objecting to me writing to my constituents?

Senator FAULKNER—I am objecting to your politicisation of this when this was extended only to sitting members of the House of Representatives. Not only am I objecting to it; I am objecting to it very strongly.

Senator TCHEN—Why is it politicising?

Senator FAULKNER—It is a disgraceful act of partisan politics in an attempt to muscle in on what was supposed to be a—

Senator TCHEN—Is there anything in the letter that I wrote to my constituents that you object to?

Senator FAULKNER—ceremony that gave a sense of nation to every primary school in this country.

Senator TCHEN—Exactly.

Senator FAULKNER—I am objecting to it most strongly.

Senator TCHEN—You are objecting to what I wrote to my constituents?

Senator CALVERT—Why don't you ask for a list of how many Labor Party state members handed out medals in Tasmania?

Senator Alston—It goes against the very nature of non-partisan—

Senator FAULKNER—You have not been concentrating on what is happening.

Senator Alston—So? I am just saying—

Senator FAULKNER—If you had heard the evidence you would appreciate—

Senator Alston—From the way in which your leader politicised the whole Centenary of Federation Week I would have thought you are not in any position to be sanctimonious about the way in which people might correspond.

Senator FAULKNER—I see. So you are satisfied—

Senator TCHEN—Chair, can I make a point to Senator Faulkner?

Senator FAULKNER—Excuse me! I am asking my questions.

Senator TCHEN—Chair, can I make a point to Senator Faulkner?

CHAIR—Yes. Senator Tchen wants to make a point.

Senator FAULKNER—Oh, so you are giving him the call now, are you?

Senator TCHEN—I have knowledge—

Senator FAULKNER—Explain how this disgraceful rort of the process occurred.

Senator TCHEN—A rort! It is not. I object to that.

Senator FAULKNER—I object to your behaviour. I object to your actions. I object to your politicisation of the centenary celebrations.

CHAIR—Let Senator Tchen make his point.

Senator TCHEN—The only rort that occurs here is your wasting of taxpayers' time. You are wasting taxpayers' time with these ridiculous questions.

Senator FAULKNER—You are a disgrace! You are a disgrace!

Senator TCHEN—You are a disgrace!

CHAIR—Senator Faulkner, you have been here a long time. You know that is not the way to conduct—

Senator TCHEN—Chair, let me put it on the record—

CHAIR—Senator Tchen, please wait a minute. You know that that is not the way to conduct yourself in estimates, Senator Faulkner. Senator Tchen, if you want to make your point, please do so.

Senator TCHEN—Let us put it on the record. Senator Faulkner has wasted this committee's time for more than an hour asking these ridiculous questions about the centenary medals. The issue of the centenary medals is public knowledge. When I heard about it, I was totally entitled and within my rights to write to my constituents to ask them whether they wanted my assistance. If there is anything in the letter I wrote that is objectionable, you can raise it in the Senate. Do not waste the taxpayers' time at this estimates committee. Raise it in the chamber.

CHAIR—Good point, Senator.

Senator TCHEN—That is all I have to say. If there is anything objectionable, raise it in the chamber.

Senator FAULKNER—Anyway, Mr Barr, you are not aware of any involvement by senators.

Senator TCHEN—I have told you that already. The department has nothing to do with it.

Senator FAULKNER—And you have certainly ruled out any involvement by political candidates in the processes.

Senator TCHEN—Will you stop wasting our time?

Senator FAULKNER—Be quiet.

Senator TCHEN—Will you stop wasting our time? I have already told you.

CHAIR—Senator Faulkner and Senator Tchen!

Senator FAULKNER—I know you do not like accountability mechanisms, Senator Tchen. I would not if I were you either, but the opposition is taking its responsibilities—

Senator TCHEN—You have no knowledge. You have no understanding of accountability.

Senator FAULKNER—You ought to be embarrassed, and you ought to try and cover up because you are a disgrace. You are a disgrace! Your actions are objectionable.

Senator TCHEN—You have no understanding of what accountability means.

CHAIR—With respect, it is not a place to have a disagreement between two senators.

Senator FAULKNER—I am not having a disagreement with Senator Tchen; I am asking about the processes which have been breached by Senator Tchen.

Senator TCHEN—I have already told you; the department has no knowledge of it.

CHAIR—Senator Tchen simply wants to make comments on the record. Let him do that and then you can proceed.

Senator TCHEN—I want to put it on the record that I have already said that the department has no knowledge of my letter, and I did not receive any prompt from the department to write it. I wrote it on my own initiative and out of my knowledge from reading the newspapers. If Senator Faulkner finds anything objectionable with what I wrote, he can raise it in the Senate, and he should stop wasting this committee's time pursuing the department on something they have no knowledge of.

Senator FAULKNER—Having dealt with that breach of process—serious breach of process—

CHAIR—It was not a serious breach of process. Senator Tchen was entitled to put his comments on the record.

Senator Alston—I assume no-one takes Senator Faulkner seriously in these assertions, so we probably should not be too concerned. It is par for the course. They are unfounded and unwarranted.

Senator FAULKNER—Let us now move to the packages that are being sent to the individual schools or, in the case of certain states and territories, to a central distribution point. Could you confirm for me, please, Mr Barr, that packets of centenary medallions addressed to every individual primary school in Australia were distributed from a distribution centre in Queanbeyan, New South Wales, in some instances directly to schools and in some other instances individual packets for schools but sent for distribution to state and territory departments for more wider dispatch within their own internal distribution networks within those states and territories? Can you confirm for me that that was the process?

Mr Barr—That was the process, Senator.

Senator FAULKNER—Can you confirm that there were somewhere in excess of 8,000 addressed packages of centenary medals which included within them a letter from you and a number of centenary medals estimated by the national council to allow distribution to each and every primary school-aged student within those schools?

Mr Barr—That is correct.

Senator FAULKNER—Can you confirm that those packages were individually addressed to the principal of the school?

Mr Barr—That is correct.

Senator FAULKNER—Can you confirm that that included the letter and this medallion in the plastic sleeve? That is all that was in the parcels.

Mr Barr—That is correct.

Senator FAULKNER—Can you explain to me how additional material was included with some of the Centenary of Federation medallions?

Mr Barr—No. The process was handled by our contractors separately from us. The only other arrangement that we were involved in was the two medallions per school for the symbolic presentations.

Senator FAULKNER—Have you had drawn to your attention the situation that occurred in relation to the federal electorate of Moreton?

Mr Barr—No.

Senator FAULKNER—Can you explain to me why, in a very significant number of primary schools in the federal electorate of Moreton, we had a sleeve with the centenary medal and this particular package included, which had a message from Mr Hardgrave MP, the federal member for Moreton, and a message from the Prime Minister, Mr Howard? How come that was distributed in schools in the Moreton federal electorate? That is completely against everything you have told this committee today.

Mr Barr—I have no knowledge of that additional sleeve at all.

Senator FAULKNER—How could this very sophisticated printing job have been undertaken—which includes dye cutting around the centenary medal and the like—how could that occur, Mr Barr without the involvement of the National Council for the Centenary of Federation?

Mr Barr—I simply do not know. We were not involved.

Senator FAULKNER—You told me that these medals went out in this form to each individual school addressed to the principal?

Dr Stretton—Can I ask a question that may help to clarify? Are these the medallions that went to every primary school or are they the ones for the symbolic presentations?

Senator FAULKNER—They were widely enough distributed in the federal electorate of Morton to have been drawn to the attention of me and other members of parliament.

Senator Alston—What you are being told is there is two different categories of medallion.

Senator FAULKNER—I know.

Senator Alston—You are not asking which one so the department can respond to your question.

Senator FAULKNER—We know there are two different categories.

Senator Alston—Which one are you talking about?

Senator FAULKNER—The two different categories go to a sample of two medals.

Senator Alston—Are you talking about that? Is that one of those two?

Senator FAULKNER—I believe not.

Senator Alston—You believe not.

Senator FAULKNER—If I were you I would not go down that track.

Senator Alston—That is what you are being asked.

Senator FAULKNER—I think Mr Barr would be able to confirm that Mr Hardgrave was one of the 23 members. Could you confirm that?

Mr Barr—The situation with the medallions in that instance I think is explained by the fact that, when the minister's letter dated 5 April was circulated—this is the letter that we tabled earlier—

Senator FAULKNER—You are going to make the point that it included a sample?

Mr Barr—I was also going to make the point that when that letter was received there were two backbenchers who sought some additional medallions that they could take with them for civic ceremonies that had already been planned, and that they sought more than the two per school.

Senator FAULKNER—Mr Hardgrave was one of those.

Mr Barr—Mr Hardgrave was one of those.

Senator FAULKNER—That is right. You can tell us how many medallions that amounted to. That means Mr Hardgrave is included on the list of 23 members, does it not? Or is that an extra two on top of it? I just assumed it would be included in the 23, but I may have misunderstood you there.

Mr Barr—Yes, in fact it would be more accurate to say 25. I apologise for that interest he sense that this list that I—

Senator FAULKNER—I understand. I just assumed that he would be included in the 23. What you are saying is that it is 23 plus two, so it is 25.

Mr Barr—Yes.

Senator FAULKNER—And who are the extra two? Mr Hardgrave is one and there is someone else?

Mr Barr—The member for Gilmore.

Senator FAULKNER—These were for what purposes?

Mr Barr—They had planned civic ceremonies and they felt that the number that was being proposed would not be adequate for the scale of the ceremony they were planning.

Senator FAULKNER—How many extras are we talking about in both these instances?

Mr Barr—The sum total of those extras is 1,042 medallions.

Senator FAULKNER—1,042?

Mr Barr—Yes.

Senator FAULKNER—How does that break up between the two?

Mr Barr—That breaks up on the basis of two medallions per form per school in their electorates.

Senator FAULKNER—Two medallions per form per school?

Mr Barr—Yes. Or per grade; so if there were six grades then there was 12 medallions.

Senator FAULKNER—I understand the formula. How does it break up between the two electorates?

Mr Barr—It was approximately 700 for the member for Gilmore and 300 for the member for Morton.

Senator FAULKNER—Where do I find in the minister's letter the capacity for a member of parliament to do that?

Mr Barr—You will not. The situation arose simply because those two members asked.

Senator FAULKNER—The minister's letter said 'additional medallions—two per school'.

Mr Barr—Correct.

Senator FAULKNER—This is some special deal that was come to with these two members?

Mr Barr—These two members were the only two who asked.

Senator FAULKNER—Who did they ask?

Mr Barr—They would have asked the minister.

Senator FAULKNER—Who ticked off on it?

Mr Barr—Presumably the minister or the minister's office were happy to provide the additional medallions.

Senator FAULKNER—Presumably, but you did not tick off on it? You were just told to do it.

Mr Barr—In the sense that we authorised the release of the medallions from the warehouse.

Senator FAULKNER—Why?

Mr Barr—It was a request that we were able to respond to.

Senator FAULKNER—Why did you do that—because you were told to do it? It is contrary to the guide—was any thought given to the fact that—

Senator Alston—It is not contrary to any guidelines. Don't make unfounded assertions.

Senator FAULKNER—It is. The minister's own letter said, just for your information—

Senator Alston—I heard what it said.

Senator FAULKNER—So it is contrary to the guidance.

Senator Alston—No, it is not. He is simply saying you can have two per electorate. If people want to ask for more, he is able to give them more.

Senator FAULKNER—He did not say that. He did not say two per electorate at all. Two per school. You are not following the play. Two per school.

Senator Alston—You are putting it that that precludes any subsequent requests, and it does not.

Senator FAULKNER—I am suggesting the guidance that went to every federal member of parliament was two per school. We know that 23 members availed themselves of that opportunity and two others had a special deal that was not extended to anyone else.

Senator Alston—You could have had everyone wanting two per school. If only 23 wanted them, you have got some left over. If there are additional requests, they can be accommodated.

Senator FAULKNER—This idea did not come from the national council, this idea came from the minister. It is another internal special deal for the Liberals.

Senator Alston—No, it is not a special deal at all. There are sufficient medals available to accommodate an additional request. If other people had wanted to make those requests they could have. Presumably the minister would have made a judgment about the extent to which they could.

Senator FAULKNER—Was the national council invited to give a view on this special arrangement, Mr Barr?

Senator TCHEN—Senator Faulkner, the key word here is that those members asked. If you had asked you would have received it as well.

Senator FAULKNER—No I would not. I am not a member of the House of Representatives.

Senator TCHEN—Did you ask?

Senator FAULKNER—I should not have asked.

Senator TCHEN—Did any of your members of the House of Representatives ask?

Senator FAULKNER—We will find that out when we get the answer to the question on notice. We know that 23 did.

Senator TCHEN—I am asking you.

Senator FAULKNER—I am quite certain a number of those 23 would be Labor members.

Senator TCHEN—Did any of your members of the House of Representatives ask?

Senator FAULKNER—That has got nothing to do with it. This is a special deal of 1,042 medals in two electorates.

Senator TCHEN—The department has already told you that the two members asked.

Senator FAULKNER—Again, you have got to follow the play.

Senator TCHEN—If they asked they received it. If one of your members asked and did not receive it, then you have some question to raise.

Senator FAULKNER—Mr Chairman, instead of this harassment, or attempted harassment, can I now ask for an answer to my question?

CHAIR—Yes, Senator Faulkner, you can. I do point out, though, that there were some 8,000 schools mentioned, weren't there?

Mr Barr—Correct, there were 8,000 primary schools

CHAIR—And there were two extra medals a school, so there were 16,000 extra medals floating around, one presumes, that had to be found a place. Is that correct?

Mr Barr—We had a stock well in excess of—

CHAIR—You had a large pool. Go ahead, Senator Faulkner.

Senator FAULKNER—Did this arrangement go to the national council, Mr Barr?

Mr Barr—No.

Senator FAULKNER—Given the circumstances here, was any thought given to extending this to other members?

Mr Barr—There was not a need to give thought to it in the sense that there were not any other requests. Nor in the weeks following were there requests beyond that which was included in the—

Senator FAULKNER—Did advice go forward from the national council to the minister suggesting that this was not an appropriate course of action?

Mr Barr—Not from the national council and not from me with my departmental hat on.

Senator FAULKNER—You see, the whole thing just got hopelessly politicised, didn't it, Mr Barr? It was completely contrary to what the national council had intended in the first instance. Does anyone know how a printing job like this could take place with these political messages for the medal to be inserted in this pocket here, which has political messages all over it? Does anyone know how this happened?

Dr Watt—That is a question we are unable to answer.

Senator TCHEN—How are those messages political? Did they say anything about how you should vote?

Senator FAULKNER—They were messages from the federal member and the Prime Minister, completely contrary to the understandings that had been reached.

Senator TCHEN—What is so political about that?

Senator FAULKNER—Just like the certificates.

Senator Alston—Are you suggesting that these surplus medals should have been pulped or auctioned? All but two are content with their allocation. Those two asked for more and there are more available. What do you say should have happened?

Senator FAULKNER—What I am suggesting is, if there are more available and it is deemed that these should be distributed—if there are more available; we have not got to the bottom of that yet—then it ought to be done on a basis of fairness. I am also suggesting that the process of the distribution and dispatch of these medals should not have been politicised in this manner. I know it is standard operating procedure for you.

Senator Alston—No-one is suggesting the department was involved in that.

Senator Alston—You might say that.

Senator FAULKNER—It is a totally inappropriate politicisation of the Centenary of Federation celebrations, the like of which did not happen so far in the centenary year.

Senator Alston—No-one is suggesting that the department was involved in the sending out of those medals. If you want to have political debate you may, but don't direct it to the department.

Senator FAULKNER—It is hopelessly partisan, hopelessly inappropriate and completely indefensible.

Senator Alston—Let us have that discussion in a week's time.

Senator CALVERT—Are you aware of any state members of parliament that were handing out these medals at school?

Mr Barr—No, I am not.

Senator CALVERT—I know in my own state of Tasmania, where we have a Labor government, I was approached to present medals but, because we were in Melbourne, I understand that state members of parliament stepped in and handed out medals. Is that politicising the situation?

Senator FAULKNER—So did federal members. It was supposed to happen on the 9th. We know that. We know exactly what has happened here, Senator Calvert. There is a special deal and a special arrangement for the member for Moreton and probably the member for Gilmore as well.

Senator Alston—You can choose to characterise it in any way you like but it does not get away from the fact that the department responded in good faith to requests from two members for additional medals.

Senator FAULKNER—That is not right. The department was instructed by the minister to fulfil a range of requests that were not generated out of the National Council for the Centenary of Federation at all, including the special deal for the member for Moreton and the special deal for the member for Gilmore—the whole idea of the certificate signed by Mr Howard and the whole extra idea of the medallions being presented by members of the House of Representatives at schools. These are not ideas generated by the national council. As we have heard in the evidence from Mr Barr, it is all an idea from the hopelessly incompetent Minister for the Arts and the Centenary of Federation.

Senator Alston—You would have put them in the bottom drawer, would you? If you have surplus medals?

Senator FAULKNER—What a joke.

Senator Alston—You probably would have auctioned them off at branch meetings, knowing you.

Senator TCHEN—That is a fanciful fabrication, Senator Faulkner.

Senator FAULKNER—We know about your role, too.

Senator TCHEN—Yes, my role is quite honourable, unlike yours. I sign my own letters.

Senator FAULKNER—Do you?

Senator TCHEN—Yes, unlike you.

Senator FAULKNER—This is one you should not have signed. A pity you do not read them before you sign them.

Senator TCHEN—Raise it in the chamber.

Senator FAULKNER—The old trick. Do not sign them, read them.

CHAIR—I think we come back to focusing on the matter at hand instead of this cross-exchange of comments. Senator Faulkner, do you have any other points you would like to raise?

Senator FAULKNER—Not on this matter, no.

CHAIR—Do you wish to raise other matters?

Senator FAULKNER—Not at the moment. Senator Lundy has many questions she would like to ask.

Senator LUNDY—Can I suggest that we do have the afternoon tea break now and we resume with IT?

Dr Watt—Mr Chairman, does that mean we are finished with arts?

CHAIR—I am not quite sure. Senator Faulkner, do you have any other questions?

Senator FAULKNER—Not on arts.

CHAIR—In that case I think we have finished with arts.

Senator LUNDY—Perhaps, Chair, we should check over the break and notify officers once we resume.

CHAIR—I am quite happy to do that if you are prepared to wait. It seems pretty clear to me that, of the senators here, nobody has any more arts questions. It would be easier—

Senator Alston—If people are not here and we are finished with that section we move on. It is quite simple.

Senator LUNDY—I was just suggesting a practical thing which is that we check with our colleagues during the afternoon tea break to make sure that there are no other arts questions. That is reasonable.

Senator Alston—Senator Schacht and Senator Bishop have been here. If you know of anyone else who is about to wander in to ask arts questions, we might be interested.

CHAIR—There are no more questions from the senators here. This is the procedure we followed this morning. If people were not here, there were considered to be no more questions. Quite obviously there are no more questions for the Arts portfolio here, so I think those officers can depart.

Senator LUNDY—I would like it on the record that I do not agree with the chair that there are definitively not any more arts questions.

Senator Alston—Do you know of anyone who wants to ask any more questions?

Senator LUNDY—No, I do not, Minister, but that is not actually the point.

Senator Alston—Yes, it is.

CHAIR—We will resume after afternoon tea with IT.

Proceedings suspended from 3.23 p.m. to 3.34 p.m.

CHAIR—Senator Lundy.

Senator LUNDY—The running sheet refers to ‘Information technology’, outcome 2, output 2.1, ID and BITS. I would just like to clarify something. Tomorrow afternoon or late in tomorrow’s program outcome 2 is also listed without output 2.1 in other areas such as telecommunications, broadcasting and intellectual property. I just wanted to flag that I hoped to ask some questions of some officers in those other aspects of output 2.1, also relating to IT, but more specifically to some of the grants programs through NTN and social bonus programs, Intelligent Island, et cetera. I wanted to see if it were possible for those officers from output 2.1 involved with those particular programs to be made available today as well, albeit they will still be required tomorrow.

Senator Alston—Are they not scheduled to be here today?

CHAIR—They are scheduled to be here today. Output 2.1 is scheduled for today. I thought tomorrow was communications.

Senator LUNDY—If you just look at the last line or the last area of tomorrow, it refers to outcome 2, on competitive and effective communications, information technology. It is the department. I know some of those officers are here anyway, but I just wanted to clarify that.

Dr Watt—I do not know if we had a hand in drawing this up or whether it was drawn up by others. Perhaps someone can clarify that for me. Our understanding was it that was IT today, and we have the right people here for that. Admittedly there is now a grey area, but for those officers who from Telecommunications, Broadcasting and Intellectual Property, obviously from their point of view they would be delighted if they could avoid being here two days. Would it be possible to go through the full run of questions today?

Senator LUNDY—No, it is not, because the other Labor senators who require them are not here today; I am. I cannot say that they will not be required tomorrow, because I know they will be.

Senator Alston—When was this known to you?

Senator LUNDY—I put in a request for outcome 2, and I expected to have the opportunity to ask questions of all officers involved in outcome 2. I am not aware of what other requests have been put in by other senators.

Senator Alston—Are you saying that your request was to enable you to pursue all your matters today, but you are also aware of others who want to raise matters tomorrow? I am asking, if that is the case, when they first indicated that they would not be able to do it today.

Senator LUNDY—I am not aware because I am not coordinating it. As a participating member in this committee and a full member on IT, I expect to be able to ask a full range of questions on information technology.

Senator Alston—I do not think we are quarrelling with your right to do that. I gather you are able to do all your stuff today. If we are being asked at the eleventh hour to suit the convenience of others by disrupting departmental officials, I am simply asking why this could not have been foreshadowed earlier by others—not you.

CHAIR—I am advised by the secretariat that information technology as such is to be done this afternoon and that officers from outcome 2.1 have been listed for tomorrow, for Senator Bishop's purposes, for Telecommunications, broadcasting and intellectual property. They are two separate sets of issues, but your issues are information technology.

Senator LUNDY—That is right—same officers, different issues.

Dr Watt—No, different officers; that is the problem.

CHAIR—They are two separate issues, two separate sets of officers, and the IT people are here today to deal with IT.

Senator LUNDY—The key thing is that the programs I am interested in asking questions on in terms of that area are the IT related and Internet related projects within Networking the Nation and the regional telecommunications programs that relate to Internet connectivity and so forth. It is a grey area, and I know some of the programs are certainly categorised as IT related, because they go to general outcomes under IT, about closing the digital divide and so forth. But they also fall technically—and this is the point—under the telecommunications area of the department, and I would want to ask questions about them as well.

CHAIR—That is why they are there under Communications, so it may be you will have to come back tomorrow afternoon to deal with those sorts of questions with those particular officers.

Senator LUNDY—That is why I raised it, because I am asking for the cooperation of the committee and the officers to make themselves available this afternoon so I could ask those questions about IT today.

CHAIR—The officers concerned with IT are here today, are they not?

Dr Watt—Yes, they are.

Senator LUNDY—No, the ones I just specified to do with those programs.

CHAIR—They will be here tomorrow.

Senator Alston—But those ones have been totally not required today.

CHAIR—And you will have to come back tomorrow to deal with those people.

Senator LUNDY—Which is why I am asking the committee as to whether or not they can be made available today so I can ask questions today. If the answer is no, then we will move on.

CHAIR—I am asking you when you knew that. In terms of what is reasonable, if you have known this all day, for example—

Senator LUNDY—As soon as I knew it, which was approximately one hour before we were due to resume back here at 2 o'clock. That was when I read through the detail of the program and tried to cross-relate the questions I wanted to ask with the officers present. It became apparent to me at that point that some of the officers I wanted to ask questions of were not in fact characterised as IT, even though previously in this section I have been able to ask questions of those officers because the department has been able to bring them forward to the table. It will be a departure from normal practice not to permit me to ask these questions today.

CHAIR—The broad agenda was worked out on broad issues.

Senator Alston—We will do what we can at very short notice to see if some of those people can be available today.

Dr Watt—I think we would not necessarily have the full suite of people as we will have available tomorrow. I am not even sure that they are in town.

CHAIR—From that answer, Senator Lundy, it looks as though you will have to come back tomorrow in order to cover the areas that you want to. I apologise for that, but this agenda has been out for a very long time now.

Senator LUNDY—With all due respect, when I request outcome 2, I expect to be able to ask questions relating to IT across the whole of that outcome.

CHAIR—You will be able to do that within the context of the estimates.

Senator LUNDY—No, I will not if what you are saying is right.

CHAIR—But Dr Watt has just said that not all of these officers will be available, so that is the practical reality.

Senator Alston—To the extent that people from that section dealing with telecommunications issues can be available today for your benefit, then we will do our best to get them along.

Dr Watt—We will see that we have people here. They might not have the full grain of some of the detail, but we will certainly have some people here who can answer questions.

Senator LUNDY—Thank you. We will see how we go. My understanding is that we are now dealing with outcome 2.1, output 2.1, relating to industry development, the BITS program, et cetera. Just turning to the portfolio budget statements, I would like to go through a series of items. This is where we get into trouble already in terms of the line items. Can I perhaps ask a general question with respect to the BITS incubators as to whether the department has any involvement in the pre-seed fund initiative that was announced in the budget?

Mr Sutton—That pre-seed fund initiative, I am fairly confident, will be administered by the Department of Industry, Science and Resources. We have had some consultations with people from the area of DISR responsible for developing the program.

Senator LUNDY—The reason I ask that question is that quite often, in the rhetoric accompanying material around the incubators, pre-seed and seed funding is talked about as being one of the offerings of the BITS incubators. I just wanted to get a grip on the extent of any relationship between that initiative and the BITS incubators.

Mr Sutton—They were certainly conceived as separate initiatives. The pre-seed fund was a product that was announced in Backing Australia's Ability. I think it is fair to say that the BITS incubators are aimed more at the seed stage in the spectrum of assistance to entrepreneurs and ideas and is slightly more advanced than the pre-seed stage, which is aimed more directly at the research sector, or products of the research sector, than our incubators are.

Dr Watt—One thing the BITS incubators do endeavour to do is encourage people into all forms of access to government funding. They would certainly be looking to encourage people into pre-seed funding, where appropriate, including people who were perhaps well advanced with one venture, but starting another one off.

Senator LUNDY—It struck me as quite a coincidence that the money made available by the government for the BITS initiative and the money made available in the budget for the pre-seed fund was the same amount, some \$78 million. Is it anything more than a coincidence?

Dr Watt—I would be very surprised.

Senator LUNDY—In terms of the BITS incubator program, are there any modifications to the program funding for that particular initiative over the outyears that are identifiable in the budget papers?

Mr Sutton—No, the program as it was announced, and still is, is a total of \$78 million, of which \$75.87 million has been allocated to the individual incubators.

Senator LUNDY—My understanding is that at least some of the incubators are trying to build models of sustainability beyond four years funding. Can I just clarify whether building a sustainable model post the four-year funding was a requirement of their applications, or whether that has emerged as a feature of some of the BITS incubators?

Mr Sutton—It was built into the program guidelines. The program was conceived as having a fixed life of five years total—four years available for the incubators to run. Certainly

achieving sustainability within the life of Commonwealth funding was a key selection criterion that was built into the program guidelines.

Senator LUNDY—I also note that some of the incubators are designed or structured to generate profits. Some are not for profit. Obviously, you did not stipulate one or the other, but could you clarify just what criteria were applied to the profitability or the not-for-profit status to the BITS incubators when you considered them for funding?

Mr Sutton—The relevance of the profit versus not-for-profit was in many ways a matter for the incubators themselves to choose. The ability to generate sustainability for the incubators was a key factor in the selection by the incubators or by the applicants of the type of model they chose. The program guidelines allowed for both profit and not-for-profit incubator proposals to come forward.

Senator LUNDY—I suppose this would hold for them whether they are not-for-profit or profit. As far as this policy goes, have you allowed for a failure rate in terms of the incubators themselves? I note with interest that you have funded a range of different models, and I think that is healthy. I just want to try to get a feel for whether you expect them all to succeed, or whether you have taken into account that some of the models might not be able to survive, either the four years or beyond that.

Mr Sutton—The issue of the sustainability or the viability of the incubator was a key selection criterion and there was a fairly rigorous selection process adopted. The final incubators chosen would not have got over the line if the department had not assessed that there was a very good chance of them being sustainable. The short answer to your question is that we have not factored in a failure rate for the incubators themselves.

Senator LUNDY—I asked about the regional aspects and the regional operations of all of the incubators. I will just try to find the answer. I want to clarify once again just what incubators are operating in the regions. I think from the information provided that a number of the applicants made their regional operations a big part of their appeal. Can you tell me which of the incubators are actually operating in the regions and what form that takes?

Mr Sutton—In terms of the announcements of the incubators and the way they have actually been set up, there is at least one incubator in all the mainland states and territories, and that includes the Northern Territory, with the ITCINT incubator in Darwin. Of the other incubators, the most prominent regional operation relates to Information City, Victoria, where there is a node that has been established in Ballarat. Of the other incubators where they have indicated a regional dimension to their operations, the ITem3 incubator in Sydney has been holding consultations with a range of councils, business enterprise centres and the like around regional New South Wales. Epicor, which is the ACT incubator, is planning to cooperate with business centres in the surrounding region of south-east New South Wales, such as the Bega business centre. The Australian Distributed Incubator, which is based in Melbourne, has a strong virtual element to its operations, and ADI services are available to start-ups and entrepreneurs in regional areas. Those are probably the main connections. EIR, the WA incubator, has flagged and raised the possibility or are having discussions about operations in regional areas.

Senator LUNDY—You mentioned Epicor and ADI. With both of them, can you point to any operation in the region that is currently functioning that would provide some substance to the claim that this initiative did have a strong regional focus?

Mr Sutton—There are no direct regional operations from those incubators that I am aware of at this point of time. For both of them—for all of our incubators—there has been a heavy focus up to this point in time on getting their core operations in the capital cities established. We are confident about it from discussions with them and we know that there are discussions going on in regional areas around them.

Senator LUNDY—Are you able to inform the committee of any deadlines you have on any of the incubators in fulfilling that expectation of a regional presence, or is that something that is up for negotiation?

Mr Sutton—To my knowledge, there are no milestones specifically for operations, apart from the ICV one, as I say, which certainly has a node operating in Ballarat. In relation to the regional presence of the incubators, we have established a regular round table with the incubators, which will next be meeting in August. Undoubtedly, the regional connection will be one of the issues which is discussed at that forum.

Senator LUNDY—The response to the question on notice about the incubator IT Catalyst, based in Sydney, cites relationships with universities and other institutions in Coffs Harbour, Wollongong, Newcastle, Western Sydney, Wagga and the Central Coast. Given that that response to the question on notice implies very strongly that there will be a regional presence, can you tell me the nature of those relationships that have been formed, if they have been, and whether people in those regions will be able to access directly the services of that particular incubator?

Mr Sutton—IT Catalyst is, of course, now Item3, so it has had a change of name. As I say, we know that Item3 has had discussions with those locations on the regional presence issue. I would have to take on notice the detail of where those discussions have got to and what stage they have reached.

Senator LUNDY—While we are on IT Catalyst, as it was when you funded it, and now Item3, can you tell me what the process was in actually changing the name and what structural changes or changes to the participants in that incubator there have been and why.

Mr Sutton—The change of name from IT Catalyst to Item3 happened fairly early in the process. I cannot recall whether the name had been changed at the time Senator Alston made the announcement of the incubators back in April last year, but it was around that point. It was simply a renaming of the incubator. There were no structural changes that I can recall to the operation of the incubator. There may have been a problem with a similarly named organisation which meant they had to change their name to become an incorporated entity.

Senator LUNDY—So the consortium members did not change at all?

Mr Sutton—I think that is correct, yes.

Senator LUNDY—Can you please take on notice that I would like you to provide any other pertinent details about what possibly motivated that change and any changes to the program. Were there any changes to their agreement with the government for funding as a result of the name change?

Mr Sutton—Apart from the obvious matter of the name change, no, there were not.

Senator LUNDY—As far as the ADI goes, you talk about a virtual incubator, which again, in the response to question on notice, is described as being accessible to entrepreneurs Australia-wide regardless of their location. It says that the incubator will take advantage of electronic tools to deliver its services to start-ups in regional locations. Can you give

examples of just how that particular incubator is operating and whether or not they have appropriately structured electronic portals to allow that to happen as yet?

Mr Sutton—Again, I would have to take that question on notice. Certainly ADI has already had some graduates from that incubator, but I think they have been ones where it has been physical incubation rather than virtual incubation. I am afraid I am not across the detail of just how significant their virtual presence has been able to be since they were established. I am more than happy to check up on that and take it on notice.

Senator LUNDY—Again, because of the strong emphasis, I note that, on several occasions, either the minister or the accompanying material from the department has cited the regional virtues of this program. From the information you have just provided me, that is yet to be seen, apart from, as you say, Information City and the Ballarat node of that particular incubator. Minister, it is probably appropriate to ask you whether or not you are concerned about the apparent lack of activity in the incubators establishing that regional presence, given it was quite a strong selling point of the virtues of this particular initiative.

Senator Alston—I think a number of the incubators are interested in responding to opportunities in regional areas. Clearly they have to be guided by the interest levels expressed. There may well be a number of reasons why you will find a group of small start-ups coalescing in metropolitan areas rather than in rural areas. There are some areas I can think of where you may have a sufficient critical mass to justify incubator activity. I would certainly expect some of the ones we have already established to be looking at those. There are other incubators around, not just the ones we have promoted. I think I have read there are in excess of 40 incubators around Australia.

Dr Watt—The other point is a fairly obviously one and not worth labouring extensively. Regional presence does not necessarily equate with regional opportunities. You can create the opportunities in many cases without physical presence.

Senator LUNDY—It is the government's words, with due respect, about talking up the regional opportunities from the supposed co-locational regional location of these incubators.

Dr Watt—Opportunities and presence are not quite the same thing.

Senator Alston—It is designed to indicate to people in rural areas that these opportunities are there. They know who the incubators are. They can approach them if they think there are a sufficient number to make it worth their while to be involved. You can have distributed networks. I think people are very much aware of what is available. I have not heard it said that we should have somehow established incubators in regional areas irrespective of demand. That is a sure recipe for going broke unless you do not want the incubators themselves to operate other than on a hand-to-mouth basis, fully funded by government. Then you will be going down the VEDC path.

Senator LUNDY—The point is that it was the expressions by the government and by you that promoted the regional aspects of it and the association between regional location and regional opportunity. What I am attempting to explore here is how that has been bedded down in the actual implementation of the policy and whether or not a lot of those early commitments, which were obviously part of the winning bidders, if you like, the incubators—part of their pitch to you—were that they would pursue regional relationships at least. What we have heard today is that they have not as yet, albeit some of them are still thinking about it. You are going to pursue it further.

Senator Alston—Obviously they have to build over time. The first thing most of them are concentrating on is sifting through the applications at their headquarters in metropolitan areas. Once they are established and they have got a full suite of companies, they are in a position to move to the second stage. In a policy sense, I am not aware of regional organisations or start-ups coming to us and saying, 'It is very unfortunate that we do not have an incubator right here.' I assume they are having discussions with metropolitan-based incubators if they are interested in setting up links. Otherwise we would not really be aware. We do not talk to the incubators on a daily basis, although I am going to the Ballarat one next week. I suppose I will then have some better sense of what they are up to.

Senator LUNDY—Perhaps I could ask you to take on notice the provision of an update of how many incubatees each of the incubators have to date. I know I ask this question every time. If you could keep me updated, that would be appreciated.

Mr Sutton—I can give you an overall figure based on the third quarterly reports which we have received.

Senator LUNDY—Which would be up to the March quarter?

Mr Sutton—End of March, yes. The incubators have processed a total of 1,122 applications and have accepted 53 incubatees. It is an acceptance rate of about five per cent or thereabouts, which is not out of line with our expectations at the start of the program.

Senator LUNDY—Are you able to tell me the average size of the grants to those incubatees? Have you got some statistics on how you are actually allocating support, appreciating that it comes in many different forms, not just in dollar grants?

Mr Sutton—There is a limit of \$450,000 that can be invested by an incubator in any one incubatee. Below that, the incubators are free to make decisions based on the needs of individual companies. I am not across what that figure is. My sense is that in a lot of the cases they are utilising close to the maximum amount that is available under the program, \$450,000.

Senator LUNDY—I know this does vary from incubator to incubator, but are there criteria or policy within the funding program that prevent supplementary investment in those incubatees whilst they are still being incubated?

Mr Sutton—From the outset of the program, we encouraged incubator models—this gets back to the first question about sustainability—where there was either direct investment into the incubators themselves which could be blended and passed on to incubatees, or direct outside investment into incubatees at the same time. We have put caps on the amount of total equity that an incubator can have in an incubatee while they are in the incubator, and that is a maximum of 45 with a preference for less than 35. Clearly there are significant amounts of co-investment going into the companies, and the approach of being adopted by the incubators varies. Some are trying, as part of the overall incubator contribution, to use some private sector funds to get up that component of funding. Others are aiming to have close follow-on co-investment so that the initial investment is all from the incubator but the aim is to attract follow-on next stage funding when an incubatee graduates from the incubator.

Senator LUNDY—In terms of the caps on equity, is there an antidilution clause that applies to the incubator's interest in that company once they exit the incubator?

Mr Sutton—Those caps are the only constraints that we put on the incubators. Our expectation is—and we hope this is the case—that, following the time in the incubator, the incubatee will be able to attract next stage funding. By definition, that would result in a significant substantial diminution or complete exit of the incubator from the incubatee.

Senator LUNDY—I am trying to get an idea—given that some of these incubators are for-profit organisations—of what opportunities there are for the incubator to actually exit that early seed investment and what position that leaves the incubated companies in once they actually leave the incubator. It is my concern that they are actually left vulnerable by virtue of the equity owned by the incubator. Are they protected in some way for a period of time post exiting the incubator?

Mr Sutton—What we are expecting to see, and I am fairly confident this will be borne out, is that the incubators will not be looking to exit their interests at the same point—in most cases; in some they might—when the incubatee leaves the incubator. There is recognition that the coincidence, the timing, of when it is optimal for an incubator to liquidate its interest, is unlikely to be exactly when the company leaves the incubator. Most of the incubators have factored in generally a year or two after a company leaves the incubator before they plan to exit their interest. They may plan to dilute their interest when the company leaves the incubator but they recognise the potential need to maintain their expertise in the management and running of the company until it can attract next stage funding.

Senator LUNDY—In terms of that follow-on investment or that next stage funding, because a number of the incubators have either fund managers or investors as part of the consortia—or indeed as representatives on the board—does anyone with an interest in the incubator have first dibs on the follow-on investment, or is it an open process?

Mr Sutton—I am not sure our funding agreements go into that level of detail. We certainly have restrictions on the ability of incubators to cherry pick the incubatees in terms of basically using BITS funds for the high risk investments and private sector funds for the low risk investments. Generally speaking, we take the attitude that what is in the best interests of the incubatee is in the best interests of the incubator, because the incubators have got an equity interest in the companies, so there is a strong coincidence between the interests of the two, and that interest is in maximising the value of their investment. We have not seen a need to go into too much detail in terms of prescribing after exit the sort of things that the incubators can or cannot do.

Senator LUNDY—In not going too far in prescribing that, what protection can you offer incubatees from the needs of and pressures on the incubators to in fact maintain or build a level of sustainability by effectively getting returns from their investments?

Mr Sutton—I was actually speaking to one of the incubators this week. It is clear from their perspective, in the light of the tech stock crash, that the best thing that could help the sustainability of the incubator in terms of their ability to track external capital—and ultimately that is going to be the key to their success—is having successful incubatees. So there is a strong correlation between the interests of the incubatees and the incubators. There is a recognition on the part of the incubators that their capital has to be patient. It has to choose the optimal timing and they have got to work with the companies to develop them to a stage where they can attract next stage funding.

Senator LUNDY—Can you take on notice that question I asked earlier about providing an update on the increased number of incubatees across the different incubators that have been funded. Also, based on the questions that you have been answering so far, do you have any documentation that talks about the post-incubator experience of these companies and any relevant policy issues that the government has considered in relation to that? I do not know if you have anything in writing, but I am thinking of guidelines, advice to incubatees, or guidelines to incubators. That would be useful.

Mr Sutton—On the individual figures for incubators, we will certainly have a look at those, but there may be some issues about revealing the internal operation of the incubator. We will have a close look at the extent to which we can provide the committee with information on individual incubators.

Senator LUNDY—I suspect I do not need to tell you to draw to the committee's attention any material you believe has a claim of confidentiality, and the committee will consider it.

Mr Sutton—We will certainly look at that issue. There are some issues relating to the ability of this committee in its estimates capacity to take evidence in camera, but we will have a close look at it and consult as necessary with the secretariat.

Senator LUNDY—I look forward to getting a full and comprehensive answer. On other aspects of the Building IT Strengths pool of money, \$158 million, I understand the Advanced Networks funding has been announced. Could you just provide a breakdown of the successful applicants for the Advanced Networks program?

Mr Sutton—Yes. Funding for three projects was announced by Senator Alston on 28 May. The first project is the Centre for Networking Technologies for Information Economy, CeNTIE, \$14 million. This is a CSIRO-led consortium including Nortel Networks, Amcom Telecommunications, the University of New –

Senator LUNDY—And who, sorry?

Mr Sutton—Amcom Telecommunications.

Senator LUNDY—Who are they?

Mr Sutton—They are one of the new carriers. One of their key activities and one of the key strengths they will bring to the consortium is that they are rolling out an optical fibre cable from Western Australia to the east. There are also the University of New South Wales, UTS and the Western Australian Interactive Virtual Environment Centre, or IVEC. The second consortium, also funded for \$14 million, is GrangeNet, which is a consortium consisting of AARNet, the Australian Partnership for Advanced Computing, the CRC for Enterprise Distributed Systems Technology, Cisco and PowerTel. The third consortium is mNet Australia, funded for \$9 million. The consortium includes Adelaide University, Agile Pty Limited, DSpace Pty Limited, the Playford Centre, Telstra, the City of Adelaide and the University of South Australia.

Senator LUNDY—What is the gist of their project?

Mr Sutton—Both CeNTIE and GrangeNet are based on advanced optical fibre networks in the gigabit class. mNet will provide a 3G test bed centred around North Terrace in Adelaide, but also with a node in Whyalla, trialling 3G wireless applications and with connections to an optical fibre backbone.

Senator LUNDY—Can you tell me whether Amcom is an Australian communications company?

Mr Sutton—I am not aware of the ownership structure offhand. It has not been around a long time, but it is certainly a licensed carrier.

Senator LUNDY—Have you done an analysis of the beneficiaries of ANP as to the Australian-ness of the applicants or consortia members?

Mr Sutton—Certainly with all three there is a heavy emphasis on Australian universities and research organisations, obviously—CSIRO, Australian Partnership for Advanced Computing and the CRCs. Telstra is obviously an important player in the mNet consortium. In

regard to CeNTIE and GrangeNet—given the nature of the equipment and infrastructure provided to get the sort of performance required— it was always going to be important to have very high capacity, high profile equipment suppliers involved in those consortiums. In CeNTIE's case it is Nortel and in GrangeNet's case Cisco.

Senator LUNDY—In terms of the mNet bid, what other corporate participants are there besides Telstra?

Mr Sutton—The list I gave you are the actual consortium members. There will be a range of other players involved in the provision of the actual network itself. The ones I have mentioned are the actual consortium participants.

Senator LUNDY—In terms of consortia members, I would like to focus on the corporate participants, the companies, as opposed to the institutions or the CRCs. Is Telstra the only corporate consortium member for the mNet project?

Mr Sutton—No, the two other companies I mentioned, Agile Pty Limited and DSpace Pty Limited, are also involved in that consortium.

Senator LUNDY—And the GrangeNet project—the corporate participants?

Mr Sutton—The corporate participants there are Cisco and PowerTel, PowerTel being the carrier providing backbone and optical fibre capacity for that network.

Senator LUNDY—What does Cisco provide in that particular group?

Mr Sutton—Cisco will be providing a range of high end routers and like equipment that will actually make some of the equipment. If you like, the smarts of the network will be based on Cisco equipment.

Senator LUNDY—They are the only two corporate participants at consortium level for GrangeNet?

Mr Sutton—Yes, that is correct.

Senator LUNDY—Is PowerTel an Australian company?

Mr Sutton—Again, it certainly is a licensed carrier. As to its ownership structure, I am not able to say.

Senator LUNDY—And CeNTIE?

Mr Sutton—Yes, that is correct.

Senator LUNDY—You mentioned Nortel and Amcom. Are they the only corporate members of the consortium?

Mr Sutton—Yes, that is correct.

Senator LUNDY—You cannot tell me whether Amcom is an Australian company?

Mr Sutton—I am afraid not.

Senator LUNDY—In pursuing the Advanced Networks initiative, I am interested that in each of the cases—apart from probably mNet, where Telstra finds themselves to be a significant beneficiary, once again, of a government grant—the major technology suppliers are effectively multinational telecommunications carriers and non-Australians. I note the minister is not here at the moment, but I wanted to ask specifically whether or not it is part of government policy to target initiatives like this to help support and grow our indigenous information and communications technology sector and whether or not that was ever

considered to be an important factor in considering the projects that came forth under the ANP submission process.

Mr Sutton—The way the program was run, there were guidelines developed by the department and agreed to by the minister. Following that, there was a public process.

Senator LUNDY—I am not questioning the selection process; I am just trying to get a gauge on that top level policy direction about using this as an opportunity to grow Australian businesses and capabilities.

Mr Sutton—The process encouraged the formation of consortia to apply for the bidding. It was left to the consortium members themselves to determine the membership of those consortia.

Dr Watt—These projects and these three successful bidders have the potential to contribute substantially to Australia's capacity in these areas. Part of that contribution will come because they have linked up with highly sophisticated companies as part of their consortium; they may be foreign or domestic. I guess you have got a lot of growing of the IT sector as a result of this initiative, even if some of the expertise comes from both overseas and domestic.

Senator LUNDY—It is an interesting thing, because you can appreciate we have had a similar debate about the relative Australian-ness of participating companies in government programs and with particular reference to the ID components of the IT outsourcing, which I want to come to shortly. I am just trying to identify whether the same issues of concern about the participation and opportunities presented to Australian companies, particularly smaller companies confronting a potential growth phase, applied to grants programs such as this under the BITS initiative. It is kind of a long bow, but it is not really, because it is about consistency of rhetoric and how you apply it across your array of initiatives that can have a direct impact on the growth and opportunity of Australian companies.

Dr Watt—Without being able to make much in the way of comparisons with IT outsourcing, because it is not an area that I am able to comment on particularly, in a sense what this project does, as I understand it, is try and marry good local ideas with a number of other things, including access to the high technology to make it work. Given how few companies possess that, in many cases—not in all—it may well mean the involvement of a foreign participant. In a sense, I think the point would be that that is good for the Australian industry. You need the expertise and the skills of a Cisco or something like it, and there is no substitute, I presume, or few substitutes for that sort of expertise. You are getting benefits for Australian companies by drawing on foreign expertise.

Senator LUNDY—That is an issue I would not mind engaging you on about the substitute technologies and whether or not it is part of an exercise that you go through to actually look at potential Australian solutions. I cannot remember the statistics associated with Cisco, but they have got a pretty good grip on the router market, as far as I understand. It is whether or not those policy considerations of leveraging targeted government programs, such as the ANP program, have been taken into account to boost opportunities for growth of the Australian industry—without, obviously, discriminating in any way. I was just wondering whether or not it is actually a measure.

Dr Watt—At a very general level, the opportunity to leverage is already there with this project. It is a question of how much leverage you can get out of any project. We think we have already got substantial leverage, and we think that is a good outcome. Would my colleagues like to add anything?

Mr Sutton—The objective of the program was very much focused on delivering to Australia world-class advanced network infrastructure of a type that is not currently available in Australia. We are very confident that the projects that have been selected will deliver on that outcome, and that that in itself will deliver substantial spin-off benefits for Australian industry. In designing the program and in seeking application, Australian technology companies were certainly able to participate in applications. A number of them did, and we were very pleased with the overall quality of the applications that came forward. I suppose that I would put the emphasis on the fact that the overall objective, which I think will be achieved, is delivering world-class advanced network infrastructure to Australia for the first time, and the benefits that that will bring for Australian industry.

Senator LUNDY—The mNET bid with Telstra's participation, I suppose this is a bit of a hobbyhorse of mine—I am always curious as to how Telstra benefits from all these grants. Are you able to identify a figure within that \$9 million that Telstra receive as part of their role in that consortium? Can you describe a little about how that particular project is funded amongst the consortia members?

Mr Sutton—Because of the nature of the program it was essential that a carrier have a very significant involvement in the project. In this case mNET Australia includes Telstra as a consortium partner. I am unable to tell you the precise details of the amount of money that will be flowing from Telstra out of this contract.

Senator LUNDY—Could you take that on notice? I am curious as to what Telstra are contributing to that particular initiative and also what Telstra receive as their proportion of the \$9 million, if it is able to be broken down in that way, by virtue of their involvement in that particular initiative.

Mr Sutton—We will certainly have a look at that.

Senator LUNDY—What happens next with advanced networks. My understanding is that it was \$40 million, one-off. Is that the case? What happens next?

Mr Sutton—That is correct. It is a one-off program. In effect the three projects will be funded for a period of three years. Again, as with the incubators, there was a criterion for the financial structures and the management structures of the networks. I think it is certainly the expectation that these networks are not going to be turned off in three years time. Precisely how that materialises is something that we will be working with the grantees on over the next three years and working out the terms of the funding agreements that we have with them.

Senator LUNDY—Just to clarify, in terms of the funding for ANP over the out years, what money has been allocated in each of the financial years to support this program? My understanding is that some of that money is actually in this current financial year.

Mr Sutton—With the BITS program, the way it has been treated in the accounts is that there was a separate item for the \$40 million Intelligent Island component. The incubators and advanced networks are basically being treated as a one-line item. We are not anticipating getting any money out the door this financial year, before 30 June that is, for any of the advanced networks projects. But certainly there will be significant amounts of money flowing to the AMP projects next year.

Senator LUNDY—Can you tell me where it appears in terms of the actual budget documentation, whether that \$40 million for advanced networks comes up as a single line item in the 2001-02 budget, given it was grouped together with the incubator component of BITS this current financial year, last year's budget?

Mr Sutton—I have just been informed that it is included with the Telstra social bonus funding as one line.

Senator LUNDY—Which is spread across how many years? It still does not answer what I think I am trying to ask.

Mr Sutton—Five years in total.

Senator LUNDY—I do not know if I am asking this the right way. I am just trying to find out whether, out of the \$40 million AMP funding, whether or not that appears in the 2001-02 budget as \$40 million to be allocated in that financial year or whether there is a proportion of it like \$20 million in one year, \$10 million the following year and so forth.

Mr Sutton—There is a predetermined funding profile for the BITS program as there is for the other Telstra social bonus initiatives which spreads the total Telstra social bonus funding out over five years.

Senator LUNDY—Okay, so if the AMP funding is a three-year project, that will be drawn out of that overall allocation for social bonus which is over five years. It will just be drawn out of the first three years of those allocations.

Mr Sutton—Yes.

Senator LUNDY—I am glad I finally got my head around that. That raises all sorts of really intriguing questions, which I will come to. I presume, based on that answer, that it is actually the same with the \$78 million from the BITS incubator program.

Mr Sutton—Yes. With the BITS incubators we made the initial payments to the incubators before 30 June last year and those payments have continued this financial year and they will continue for the next three financial years.

Senator LUNDY—Again, out of the same general pool from social bonus money allocated over five years.

Mr Sutton—Yes.

Senator LUNDY—Can you take on notice—and I do want to come to these issues a little later, but before I forget—to provide me with a table that stretches across the five-year period of funding for all of the social bonus programs and break down program by program the BITS—but also the elements within the \$158 million of BITS—that are allocated to each program to date in each financial year and projected across the out years?

Mr Sutton—Yes, that is doable.

Senator LUNDY—I actually got a question back from you on notice that had the total amounts and then the proportions in percentage terms allocated in subsequent years but, if I could get the dollar figures in relation to that, that would be terrific.

Mr Sutton—We understand what you are looking for.

Senator LUNDY—You did give me something that was pretty close in terms of percentages spent of each of the programs, but I am looking, based on what you have told me, for another breakdown. That would be handy, thank you.

I might now turn to some of the industry development aspects of IT outsourcing. I note with interest the recent release of the ICT industry development discussion papers. I just wanted to get an update from you with regard to that consultation process.

Mr Sutton—Any specific aspects, Senator?

Senator LUNDY—The Strategic Industry Development Agreement program—I think you just call it the SIDA. Is that how you say it? We talked about it last time in a different committee.

Mr Sutton—Yes, we did.

Senator LUNDY—You have now released a discussion paper?

Mr Sutton—Yes.

Senator LUNDY—What is the timeframe for responses to that?

Mr Sutton—It is about four weeks, so we are allowing approximately till the end of June for comments to be provided on the paper.

Senator LUNDY—What is the consultation process attached to the other document about inhibitors to SME participation of federal government IT outsourcing contracts?

Mr Sutton—For both of these papers we have asked for written comments by Friday, 29 June. The papers are available on departmental web site. They have been circulated to all existing partnerships for development companies. The SME paper has also been circulated to a range of SME stakeholders. We will certainly anticipate holding a roundtable with state governments in a couple of weeks time to discuss the contents of the papers and utilising associations like the AIIA to gather the views of their members on the issues contained in the papers.

Senator LUNDY—Reading with interest the government's efforts to try and sort out the industry development aspects of the IT mess, can you tell me whether the changes to the requirements for SMEs to be involved indicate, at least in the first instance, that the threshold is arguably higher rather than lower in mandating for an SME participation or presence with respect to those contracts?

Mr Sutton—The level of \$10 million was chosen to coincide with the figure for the major projects threshold across the government more generally. We would anticipate that that threshold would be adjusted consistent with any changes to that threshold across the government more generally for a broader range of activities. Previously of course with the outsourcing program all five that were let were multi hundreds of million dollar contracts, so the minimum size has not been one that had to be addressed. We selected the minimum threshold to coincide with the major projects threshold for government contracts more generally.

Senator LUNDY—Have you got any feedback from small businesses about that particular change as yet?

Mr Sutton—We have not had much feedback on the papers at all at this point in time. The major comparison point at the moment is between the pre-Humphry regime, where the contracts were all for hundreds of million dollars, and the likelihood that there will be a substantial number of much smaller contracts. That change has generally been welcomed for the potential additional possibilities, but there has not been any more detailed comment than that.

Senator LUNDY—Do you see that potential of additional opportunities as being a key part of the government's direction on these matters? I ask that for a very specific reason. At the moment in the Humphry review and the government's response, it is inherent that there will be smaller or more digestible sized contracts put out to tender. Can you point to anything

specific that goes beyond just that potentiality or that expectation that actually shores up the concept that there will be better opportunities for small to medium sized enterprises?

Mr Sutton—Yes, it is fair to say that there have not been a lot of agencies contacting us saying that they are eager or they want to proceed urgently with outsourcing contracts. It is clear that there have been some for desktops, for example, where it has been necessary to go ahead. It is also clear that, completely consistent with what the Humphry review forecast, agencies are removed from the requirement to outsource on a whole of agency basis and they are being much more selective in their outsourcing strategies and are considering it as one tool to achieve their business objectives. To that extent, although there is not actually direct evidence yet of smaller contracts, we are probably more confident now than we were at the time after the Humphry review was released that there will be that variety of contracts and opportunities emerging.

Senator LUNDY—What process do you have for monitoring what tenders are put out in case they do not make the cut-off in terms of requiring an ID component?

Mr Sutton—Certainly the framework that we have put out requires agencies to consult with us and we have prepared model RFT criteria for ID aspects for inclusion in both contracts greater than \$10 million and contracts less than \$10 million. We are talking to a number of agencies, but not a large number, about outsourcing possibilities at the present time.

Senator LUNDY—And sanctions if they do not conform with commitments?

Mr Sutton—For contracts greater than \$10 million and consistent with the overall approach, the sanctions under the framework announced by the minister—unlike the Humphry regime where the sanctions are specific contractual penalties for non-performance—the specifications of the winning bids in relation to SME content, Australian value added and the new concept of SMEAVA will be written into the strategic industry development agreements which the companies have and will be negotiating with us.

Senator LUNDY—Have you had any feedback from small to medium enterprises about the relevance or appropriateness of the Australian value add measurement that has been I suppose the metric which guides the department on—

Mr Sutton—Only to the extent that the main reason that the SMEAVA measure was introduced was a concern that was expressed not just by SMEs but by others. Regardless of the Australian value add, if something was bid in by an SME then it counted as SME content, even though the AVA levels could be very low. That was seen as lowering the quality of the SME involvement, so the introduction of the SMEAVA measure was a direct response to that concern.

Dr Watt—I think we have not sought feedback, so it is not surprising that we have not got very much.

Senator LUNDY—Theoretically, that will come with the release of your discussion papers.

Mr Sutton—That is correct, yes.

Senator LUNDY—Are there any other metrics you are considering in terms of establishing the relative return to the Australian economy, the Australian ICT industry growth, beyond the SME component or the two metrics that you have described?

Mr Sutton—Those metrics will be the quantitative factors that are taken into account in evaluation of bids for outsourcing contracts over \$10 million.

Senator LUNDY—Because you have got discussion papers out there, are you telling me that is locked in or could that be subject to change based on consultation?

Mr Sutton—The discussion papers that are out are in relation to the new SIDA scheme and also inhibitors to SME involvement. The metrics of SME content, AVA and SMEAVA already are included in the model RFT criteria that have been prepared and we make available to agencies when they are considering outsourcing contracts.

Senator LUNDY—So they are not negotiable at this stage.

Mr Sutton—We will always be happy to talk to companies about the fine detail, but those are certainly the general concepts.

Senator LUNDY—Did you want to add something, Dr Watt?

Dr Watt—No.

Senator LUNDY—I asked a question in the last round of estimates about the regional nature of the ID components of the existing contracts. The answer to the question on notice came back and had a list of the regional features and various commitments from each of the existing contracts. I just want to run through them, because I found it really interesting. I asked for a breakdown of the claimed 400 regional jobs that both Ministers Alston and Minchin have cited in a number of public statements. I was intrigued to get back the list of what constituted a regional job, given, again, the government has chosen to make the regional attributes of the industry development components of IT outsourcing a political selling point for the program.

I note with interest that the jobs that have been cited as providing this regional attribute for these components include 87 jobs in both Adelaide and Canberra; Newcastle, 24 jobs; Gold Coast, 101 jobs, et cetera. If you take Canberra and Adelaide out of it, there are 101 jobs at the Gold Coast, 24 jobs at Newcastle, five jobs in Darwin, five jobs in Ballarat and 13 jobs at various Ipex regional locations. I was hoping for some comment from the minister, but he is not here. Do you have a formal criteria or definition for what constitutes a regional job for the purposes of making these statements or, indeed, advising the minister of what regional jobs have been created out of the industry development components of the IT outsourcing contracts?

Mr Sutton—I am sorry; I have not got those particular questions in front of me. You must have been asked them at the hearings before last. My understanding is that that was an explicit definition of regional employment which was used under the former outsourcing regime. It was an explicit definition, and I am not aware of the origins of that definition.

Senator LUNDY—I asked for very specific details of the 400 regional jobs figure and from where they were derived. I am presuming it is your definition and that would have produced this response.

Mr Sutton—It was a definition that was used in the outsourcing process that led to the five contracts let under the pre-Humphry regime. The definition of regional—and I would need to check on this to be completely confident—was one that was used in the RFTs for those contracts. Bidders were asked to specify those jobs against criteria and the definition of region was included in the RFT for those contracts.

Senator LUNDY—What is the department's view of what constitutes a regional job? Does Canberra and Adelaide qualify?

Mr Sutton—I am not sure we have a view. That was the definition that was used in the pre-Humphry regime.

Senator LUNDY—Are you saying you stand by it, or you do not?

Dr Watt—I think we are saying it is a definition that we were handed to use and we have used it.

Senator LUNDY—Handed by whom?

Mr Sutton—I would need to check on that, but I understand it was a definition that was used by OASITO in drawing up the bids and the tender documentation.

Senator LUNDY—I thought you guys had control of the ID component. You keep telling me that; they keep telling me not to ask them questions about any of this stuff but to ask you. Are you going to give me the flip-by again, back to them?

Mr Sutton—Basically, I think I would need to take this on notice, because I am just not confident of being able to go any further today. It is something we could certainly check up on for you.

Dr Watt—We will undertake to look for the origins of the definition.

Senator LUNDY—I will just give you a reference for the response to the question on notice I have answered. It has, in fact, come from your department, not from OASITO.

Mr Sutton—Yes, that is correct, but it was using those definitions of region.

Senator LUNDY—It was question No. 13 from the 2000-2001 budget supplementary hearings. I will look forward to that answer. If you could also take on notice again, what is your definition of what constitutes a regional job from now on, or in the post-Humphry regime, for the purposes of applying a measure or an assessment to the industry development outcomes?

Mr Sutton—That is probably an issue we will need to address in the context of finalising the arrangements for the strategic industry development agreements. I propose that we answer that in that context, which means that—

Senator LUNDY—It may or may not be a relevant question anymore. Is that what you are saying?

Mr Sutton—No, consultations close on that paper around the end of June. The final details of the regime will probably take another month or so to finalise. We will certainly inform the committee of those outcomes.

Dr Watt—We are saying that it would be very hard for us to answer that question when the time arises for the committee's requirements about questions on notice.

Senator LUNDY—I cannot conceive as to why it would be so hard to provide a definition of what constitutes a regional job. I presume there is some such definition existing through other work that the department does. I am perhaps making a naïve assumption that there would be some consistency of those definitions, so we might not well have to wait until this specific program is finalised before you can give a definition.

Dr Watt—I think the answer might be that there is no shortage of definitions of 'region', but they are not necessarily consistent.

Senator LUNDY—I will look forward to those questions on notice. In the meantime, I take note that 75 per cent of the jobs identified as regional as far as this question on notice is concerned are not really regional at all, which means that the minister is being very naughty

in misleading people—again, talking up the regional attributes of a program where, in fact, the regional attributes are fundamentally weak.

Dr Watt—That is something we are unable to comment on.

Senator LUNDY—I am not expecting you to comment; I am making a political statement in the minister's absence. I would really like to hear his opinion on it. I would like to turn to some specific budget measures. This is the area that I flagged earlier about officers of the department, so I will see how we go.

Dr Watt—We have got some capacity, Senator.

Senator LUNDY—No, I appreciate that. We could probably deal with them without an issue. I note in the budget papers—and I am cross-referencing now between Budget Paper No. 2 and the department's portfolio budget statements—that some line items relate to Backing Australia's Ability, some relate to the telecommunication's service inquiry response and some relate to issues that we have already discussed, which is the ongoing funding of programs under the social bonus initiative. I probably should go through this in a straightforward as way as possible. I am referring to page 44 and 45 of the portfolio budget statement.

Dr Watt—I do not want to complicate it for you, but the ones that relate to Backing Australia's Ability are handled by the National Office of Information Economy, who I think will be with us later on.

Senator LUNDY—On page 47 there is an item on 'the telecommunications service inquiry response savings from Rural Internet Access Fund reserve'. NFP means not for publication, I presume. Can you explain for me this particular item in the portfolio budget statement why there is not a figure there, even though the explanation discusses the reallocation of a proportion of the funding from the Rural Internet Access Fund reserve?

Dr Watt—I can give you a short explanation. The answer is that the exact extent of the savings is subject to negotiation and, until those negotiations were complete, it was regarded as inappropriate to put a specific number in the budget papers. It is not an uncommon thing.

Senator LUNDY—I do not see too many NFPs; not in my portfolios anyway. Everyone is usually very efficient. Negotiation with whom?

Dr Williamson—The negotiation is with Farmwide Pty Limited, which had a project which was announced several rounds back from Networking the Nation to provide local call Internet access to all areas across Australia that do not have that facility. There have been developments both from the extended zones tender, which is providing that across the extended zones, and some commercial developments more recently which meant that there was no longer a need for that project to deliver that particular outcome, which essentially was the objective of the Networking the Nation Internet access program. There have been discussions and negotiations with Farmwide which are still ongoing about the need for that program and the extent of what might still happen there.

Senator LUNDY—Just to clarify that, how much is Farmwide currently funded to?

Dr Williamson—It was \$20.3 million and some figures. I think it was \$20.378 million.

Senator LUNDY—That was announced with the first tranche of the Telstra sale and the initial announcement of Networking the Nation?

Dr Williamson—That was an earlier Farmwide project.

Senator LUNDY—I see.

Dr Williamson—That was, from memory, a \$5 million project. They were funded, you are correct, in the first round. This was announced I think not in the last round but in the round before that. About this time last year

Senator LUNDY—Was it social bonus money or RTIF money, for want of a better distinction?

Dr Williamson—They are one and the same thing.

Senator LUNDY—I know. I guess I think of it in terms of NTN initially as being the round from the first tranche sale and then social bonus as the round emanating from the second tranche sale.

Dr Williamson—I think we refer to T1 and T2. The first \$250 million Networking the Nation Fund, RTIF, was T1, the first Telstra sale. There are other elements of Networking the Nation and other programs that came out of the second Telstra sale and Internet access funding was one of those.

Senator LUNDY—Where did this \$20.378 million Farmwide project come from?

Dr Williamson—It came from the Rural Internet Access Fund which was set up under the legislation for the T2 sale. There was a \$36 million allocation in the legislation.

Senator LUNDY—With regard to the \$22 million allocated under that fund, can you just clarify that there was a residual \$14 million yet unallocated under that fund?

Dr Williamson—I think from memory the figure was more like \$9 million unallocated. There is possibly an administrative component that makes up some of that difference. After the last funding round, which was announced in February, the remaining figure—

Senator LUNDY—I have got the percentage figure. The proportion committed to February this year was 73 per cent of that \$36 million fund, so I want whatever the dollar figure residual is.

Dr Williamson—The figure I have is \$9.58 million as unallocated from that fund.

Senator LUNDY—From what date?

Dr Williamson—That is following the last announcement of Networking the Nation rounds which was made in February. There have not been any further allocations since then.

Senator LUNDY—Can you tell me with respect to savings from Rural Internet Access Fund whether you are talking about reallocating that residual \$9.7 million that has not been spent or whether you are talking about money specifically from an underspend in that Farmwide \$20.3 million project?

Dr Williamson—There is another item in the estimates at the page before the one you are referring to, I think.

Senator LUNDY—Which page?

Dr Williamson—Page 45—the telecommunications service inquiry response contribution to a national online technical assistance program. In the second paragraph under that, as part of this initiative the government will allocate \$6 million from the Rural Internet Access Fund. That \$6 million has been announced as being reallocated. I think that other item you are referring to is foreshadowing further allocations but with an unsettled amount.

Senator LUNDY—You are funding \$6 million of the Besley response. That online technical assistance program is coming straight out of the Rural Internet Access Fund?

Dr Watt—Yes. That is because what we are doing under Besley is fully consistent with the objectives of the Rural Internet Access Fund. This is the online technical assistance program.

Senator LUNDY—What was the total announced by the minister that would be spent on the Besley response?

Ms Holthuyzen—\$163 million

Senator LUNDY—\$163 million. Is that \$6 million for that contribution to a national online technical assistance part of that \$63 million?

Ms Holthuyzen—Yes.

Senator LUNDY—It is being pulled out of money previously allocated under a different program?

Ms Holthuyzen—I am sorry, I missed that.

Senator LUNDY—The \$6 million that was announced as part of the Besley response has actually been drawn out of the Rural Internet Access Fund?

Ms Holthuyzen—That is correct. That is where it is being funded from.

Senator LUNDY—At the time of those announcements, with regard to the telecommunications service inquiry response, I cannot recollect the minister explicitly saying that would be funded either in part or significantly by reducing existing programs—unless you can correct me.

Dr Williamson—It is actually funding. The purpose for those funds is set out in the legislation and the purpose that it is being used for under Besley is still the same purpose. It has not been drawn from funding one purpose to another. It has been removed from funding things through Networking the Nation to funding similar sorts of activities.

Senator LUNDY—I presume there was not going to be a technical breach of allocation of moneys. I think I am making a political point again about the way in which the minister announced it. It implied that this was over and above the commitments that had previously been made. Here we see at least a proportion of the Besley response being funded by cutting previously existing programs. Now they are trying to eat into Farmwide.

Dr Watt—There is certainly no technical breach. I think the point the minister was making in his announcement was that, in response to Besley, the government is committing \$163 million worth of resources. That is specifically in response to Besley. As part of that we found ways of drawing on existing program funding because those existing program objectives are being achieved in other ways.

Senator LUNDY—Or there is a significant underspend in some of those programs.

Dr Watt—The point is that, if it was just an issue of an underspend, because of the nature of those programs as I understand them, we would not be able to draw the funds. The point is that the Besley response for which those moneys are used has to be consistent with the requirements of the existing program.

Senator LUNDY—What I am concerned about is that, when the government announced the social bonus range of initiatives, we have already heard this evening that money was allocated across a five-year period and that it is drawn upon essentially from that pool as programs are funded and grant applications are received. What we are hearing now is that there is far more flexibility within that pool of funds provided it has some correlation with outcomes and that the minister has reconstructed a whole proportion of initiatives under the

social bonus funds for the purposes of responding to Besley. Can you tell me if there is any new money at all in responding to the Besley inquiry?

Dr Watt—The Besley inquiry is predominantly new money.

Senator LUNDY—Is it?

Dr Watt—Yes.

Senator LUNDY—Can you tell me precisely what initiatives under the Besley response are new money and what initiatives under that response are drawn from the social bonus pool of money which is starting to look far less like an allocated series of programs and far more like a slush fund for backfilling issues to do with poor telecommunications services in rural and regional Australia to serve the government's political purposes?

Dr Watt—I cannot comment on the last part of the question.

Senator LUNDY—I do not expect you to. I am very curious about the details of these allocations.

Dr Watt—The only money that has been drawn on from other programs for Besley is the \$6 million you have identified and the \$9 million from the rural transaction centre's fund. The RTCs' objectives have been achieved in other ways.

Senator LUNDY—From the rural transaction centres?

Dr Watt—That is right.

Senator LUNDY—How many rural transaction centres are in place at the moment?

Dr Watt—I am not able to comment on that. It is not part of my portfolio.

Senator LUNDY—No, it is a shame isn't it? We could go down that path.

Dr Watt—I will leave that to someone else.

Senator LUNDY—There was \$9 million from rural transactions?

Dr Watt—That is right.

Senator LUNDY—Was that funded under the social bonus program?

Dr Watt—That is part of the social bonus program.

Senator LUNDY—There is \$9 million there and there is potentially \$6 million from the unspent amount of the Rural Internet Access Fund. In terms of the negotiations with Farmwide, any savings that you are able to extract from that \$20 million project is that over and above the \$6 million that has been drawn out of the Rural Internet Access Fund?

Dr Watt—It is not a matter of saving, it is a matter of the objectives. The Farmwide exercise has now been achieved in other ways.

Senator LUNDY—Whatever spin you want to put on it.

Dr Watt—I do not think that is a spin. The objectives have been achieved in other ways. Yes, if there were reduction in expenditure under that program because the objectives had already been met then that would be over and above the \$6 million.

Senator LUNDY—Above the \$6 million?

Dr Watt—Over and above.

Senator LUNDY—Over and above the \$6 million. Are you able to give me a ball park figure on what you are hoping to achieve?

Dr Watt—No. The negotiations are ongoing. That would be prejudicial to our negotiations.

Senator LUNDY—Let me ask it in this way—

CHAIR—The ground rules are that bureaucrats are here to provide information and you should not be criticising them in a quasi-political way.

Senator LUNDY—Then I request the presence of the minister.

CHAIR—Whether the minister is here or not those rules apply and you are out of order. Just ask questions and get information. Do not impugn political motives or seek political information.

Senator LUNDY—I make the point that several times now I have mentioned the minister's absence.

CHAIR—The minister will not be back until after dinner.

Senator LUNDY—Let me finish, please.

CHAIR—The minister is a cabinet minister.

Senator LUNDY—No-one told me. He walked out of here five minutes after starting information technology and has not been back. I have tried to make the point, every time I have made a political point, that that is exactly what I have done—with respect to the bureaucrats here at the table. Unless the minister fronts up, I will continue to reserve that right to make those political comments because I cannot ask a policy question.

CHAIR—In that case you are not operating within the rules of these committees. That is unacceptable behaviour.

Senator LUNDY—Neither is the minister by his absence. If that is the case we should suspend it now and wait until the minister comes back.

CHAIR—I am quite prepared to do that. If you would like me to do that I will suspend the meeting right now and we will resume at 7 o'clock.

Senator TCHEN—Can I point out to Senator Lundy that I appreciate that she has come out in the open and said she was trying to make political points, but the estimates committee is not really the place to make political points—it is to find out facts.

CHAIR—Senator Lundy, the point is that you are putting the officers in an awkward position. You should not be doing that. You have got plenty of experience—

Senator LUNDY—I am making a genuine effort to qualify when I make a political statement for their benefit and out of respect for the committee process.

CHAIR—You have to understand that the officers are not here in a political capacity.

Senator LUNDY—I know that.

CHAIR—Let us play it by the rules.

Senator LUNDY—If you are going to call rules on me then it is part of the rules that a government minister be present at the estimates committee. Usually we are pretty cooperative about that. I have made every attempt to make the political point about it. I care not to speculate why Senator Alston chooses not to be here if he is just back in his office and will not be available until after dinner.

CHAIR—He is not in his office. He is in a meeting.

Senator LUNDY—I would have appreciated an explanation and perhaps some prior discussion about that.

CHAIR—I did advise the secretary that he would not be back until seven.

Senator LUNDY—Perhaps you should convey that to committee members. If you are advised of that as chair, that is your responsibility.

CHAIR—You said you would prefer the minister to be here and he is not going to be here until seven. What do you wish to do?

Senator LUNDY—I would like to keep asking questions without interruption.

CHAIR—As long as you do not put the officers in positions which they are not supposed to be in, in terms of asking them to make political comment or putting them in situations where—

Senator LUNDY—I have not asked them to make a political comment. They have appropriately chosen not to respond if they felt I asked a policy question and I accept that.

CHAIR—you are probing sensitive issues which they are not entitled to express views about, then we will proceed. If you do not stick to those rules we will suspend this meeting until 7 o'clock when the minister returns. Please proceed.

Senator LUNDY—With all due respect to you, I reserve the right to make any comment on the record that I feel is appropriate. There is no minister sitting on the other side of the table. It is not like I am asking them to respond to policy questions.

CHAIR—I think it is unfair to continually put the officers in a position where they have to seek refuge from your line of questioning.

Senator LUNDY—They would not be in that position if they had a minister here to step up to the crease when those questions were asked.

CHAIR—I think we both know what we are talking about. Let us proceed.

Senator LUNDY—I do not. I think you are being completely pedantic. You have now wasted a significant number of minutes. I will ask a technical budget question now which is: how much of that \$20 million to the Farmwide project has spent to date?

Dr Williamson—Approximately \$200,000.

Senator LUNDY—Really—\$200,000 out of a \$20 million project? Can you tell me when that particular project was awarded or funded or signed off on?

Dr Williamson—Let me check whether we have got it here. It was approved in May 2000.

Senator LUNDY—It has been approved for a year?

Dr Williamson—A year.

Senator LUNDY—Out of the \$20.378 million project approximately \$200,000 has been spent.

Dr Williamson—The deed for the project was structured in a way that had a preliminary phase which was developing tender documents, consulting with states and defining the areas that needed the Internet service. There was a monetary limit put on that phase 1 which was \$200,000. Proceeding beyond that point, interface 2 required a number of approval steps which have not taken place. We are still within a first phase of a deed of agreement which has the \$200,000 limit.

Dr Watt—As consistent with the deed of agreement, we only pay according to milestones.

Senator LUNDY—Sure. The point is there is potentially \$20 million there to be negotiated back? That is true, isn't it?

Dr Watt—Yes.

Senator LUNDY—Going back to my earlier point about the telecommunications service inquiry initiatives, can you tell me any others which are specifically funded from other projects? We know there is \$9 million coming from the rural transaction centre program. We know there is \$6 million coming from the Rural Internet Access Fund. Are there any other specific—

Dr Watt—No.

Senator LUNDY—Can you explain to me why page 48 of the portfolio budget statement, under the item 'savings from the national transmission network residual pool', has line items of negative \$2 million for each of the next four outyears and what that means as far as savings or expenses go?

Dr Watt—I apologise for tripping you up with more complications. This is actually an intricate broadcasting area of the department that we do not have here at all. Can I say that this was a saving completely independent of the telecommunication service inquiry. As I understand it, it was because the specific objectives of that residual pool to achieve certain things had already been completed and therefore the funds were not required.

Senator LUNDY—You can appreciate why I am interested because the bottom line of the explanation says that 'funds can be re-allocated to other priority areas'. My question is: is that \$8 million identified there as a saving, going to be re-allocated to any of the telecommunication services inquiry response?

Dr Watt—Those funds were returned to the budget.

Senator LUNDY—They were returned to the budget?

Dr Watt—Yes. Our priority areas in there mean broad budget priorities rather than priorities?

Senator LUNDY—It mentions below that:

See also the related expense measure titled 'Maintenance of the funding base of the cultural development program.'

That to me implies that that is conceivably where it has been reallocated to?

Dr Watt—As part of the budget process, certain programs require offsetting savings; the portfolio had to provide particular offsetting savings. The cultural development program was one beneficiary of offsetting savings.

Senator LUNDY—I do not understand.

Dr Watt—The portfolio had a number of lapsing programs. In order for these programs to be continued, they had to be funded. They were not funded in the general budget. The portfolio looked at a number of areas where we could find ways of funding lapsing programs. The cultural development program was perhaps the largest part of those lapsing programs—sorry, the beneficiaries of one of those programs was a lapsed program. It was a beneficiary of the fact that there were savings available in that particular project.

Senator LUNDY—That means it is still lapsed or no longer lapsed?

Dr Watt—The cultural development program is ongoing. It has been funded.

Senator LUNDY—It is now ongoing; it is not going to lapse because of this?

Dr Watt—That is right, partly because of that.

Senator LUNDY—Are there any other programs you can flag that have benefited from this saving?

Dr Watt—I think that is the main one, although probably not the only one. There are a number of parts. I have been told it is the only one.

Senator LUNDY—Thank you. The next item in the portfolio budget statement has a similar process. It identifies the saving of \$15 million, albeit not in this forthcoming financial year, page 49. The explanation provided is:

Savings arise in the Department of Communications, Information Technology and the Arts by redirecting surplus funds from completed programmes.

It identifies four separate arts related initiatives. I guess I am looking for the explanation of whether that means that \$15 million savings in this area is being allocated to those other arts programs nominated in the portfolio budget statement.

Dr Watt—Again, they were part of the offsetting savings provided to keep those other programs going which includes our friend, the cultural development program.

Senator LUNDY—In terms of that particular item, it just says ‘Reallocation of surplus funds’. Are you able to tell me where those surplus funds came from, what part of the budget, and if they were in any way associated with any of the grant programs or social funds program, or indeed, any previously announced program?

Dr Watt—Those programs came from the software development program which was established as part of the 1997 Investing for Growth initiative. The reason there were surplus funds is that two objectives of the program have been completed. As they have been completed, the funds were available to other priority areas.

Senator LUNDY—You say the software development program: did that relate to Software Engineering Australia?

Mr Sutton—Yes, that is correct.

Senator LUNDY—Now I wish I had read that bit of *Hansard* before coming back here. Can you refresh my memory: there was some significant change to that program, from recollection, about its failure early on to meet the desired objectives and summary structuring? You have managed to scrape \$15 million out of it?

Mr Sutton—It had been envisaged, and it is still the intention, that Software Engineering Australia will be self-sustaining at the end of the existing grant period. Funding had been built into the outyears in the expectation that further funding would be provided to SEA. That was never the intention so the funding has been redirected to other programs. It is still the intention and our expectation that SEA will be self-sustaining at the end of the current grant period. The removal of the \$15 million should not have any long-term implications for the viability of Software Engineering Australia.

Dr Watt—Nor any short-term ones either.

Senator LUNDY—Only as a result of the renegotiation of the terms of funding for SEA following the problems they experienced?

Mr Sutton—Yes. That renegotiation of the nature of the program did not affect the overall length of the funding period for SEA.

Senator LUNDY—Can we backtrack over this for a minute so that I have it very clear. Software Engineering Australia was originally funded to what degree across the outyears, and as part of what package?

Mr Sutton—As Dr Watt indicated, it was in Investing for Growth, the statement that came out in 1997. It was a program that originally was established by DIST and was transferred to this portfolio after the 1998 election. Under the original agreements, it was set up in a structure which involved separate state nodes. The deeds were renegotiated last year.

Senator LUNDY—Before you go to the next point. Under that original proposal with separate nodes in each state, what was the total allocation of funding across the outyears, which I presume would have included this \$15 million?

Mr Sutton—There was no expectation at any stage in the life of the program that the funding would go beyond 2002-2003.

Senator LUNDY—That was not my question. My question was: given you have got line items, \$5 million from each of those outyears, I am presuming that that was attributed in some notional way to the program you are describing?

Mr Sutton—Yes, that is correct.

Senator LUNDY—I am asking you what was the original notional allocation of funding to that 1998 SEA program that DOCITA inherited from DIST.

Mr Sutton—I would have to take that on notice. I am afraid I cannot recall the original allocation of the program.

Senator LUNDY—It was obviously more than \$15 million?

Mr Sutton—Yes. The original allocation which we used for program design purposes—and I will verify this—was of the order of a total of \$28 million, which included funding for an accompanying program which we now call Test-IT, which was a testing and performance infrastructure program.

Senator LUNDY—When you inherited it in 1998, when it was still separate state nodes, \$20 million was notionally allocated. At that point in 1998 you referred to renegotiating the whole terms and conditions of SEA.

Mr Sutton—The renegotiation took place last year.

Senator LUNDY—Not until then?

Mr Sutton—That is correct. The implementation of the program commenced using the state nodes. It was subsequently renegotiated to create a single national entity which had regional operations.

Senator LUNDY—When was that renegotiation?

Mr Sutton—I think it was in the year 2000.

Senator LUNDY—Was having a national body with state representation part of the major renegotiation?

Mr Sutton—Yes, it was.

Senator LUNDY—Up to that point, can you tell me how much money had been expended? I apologise if we have talked about this before. I know we covered a fair bit of ground last time.

Mr Sutton—I am afraid I have not got the figures with me for the amount that was expended at the time of the actual change.

Senator LUNDY—I suspect you may have provided them to me. If so, could you point me in that direction when you get that information or just take it on notice.

Mr Sutton—Certainly.

Senator LUNDY—We are now at the point of renegotiation with the ongoing SEA program and Test-IT. Can you tell me what the current allocations are for both Test-IT and the SEA, Software Engineering Australia?

Mr Sutton—Yes. The expectations that we have are that, under the software engineering quality centres program, \$3.91 million was expended in the last financial year, \$6.38 million is currently planned to be expended in this financial year, \$4.75 million in 2001-02, and \$0.91 million in 2002-03.

Senator LUNDY—Can you point me to where I can find those in the budget papers?

Mr Sutton—Not offhand.

Senator LUNDY—Are they in the budget papers?

Dr Watt—Everything is in the budget papers in some size, shape, form or other.

Senator LUNDY—I would assume so, Dr Watt.

Dr Watt—If you turn to page 50 of our portfolio budget statements and go down to departmental appropriations, output 2.1, they are part of those estimates of \$44.3 million for 2001 and \$47.9 million for 2002. That is the closest break-up in the published budget papers.

Senator LUNDY—Really? That is amazing.

Dr Watt—So I am reliably informed.

Senator LUNDY—How are we supposed to know how much Software Engineering quality centres got if we did not ask that question? I am not being smart; it is a genuine question.

Dr Watt—No, I appreciate that. I guess that is one of the functions of this process.

Senator LUNDY—We would not know. Totalling up what has been allocated across the outyears, as has just been described, that seems to come to around \$15 million.

Mr Sutton—Yes. The deed that was negotiated last year with the creation of the new entity involved a commitment of a total of \$14 million to the new national entity. That amount will be paid out over the life of the program. There are several residual deeds for quite small amounts that are still current from the pre single national entity days which we are administering. The total expenditure under the program is the pre-integration expenditure, plus the \$14 million for the new national entity, plus the residual amounts from the few remaining deeds that are still current.

Senator LUNDY—Can you give me a dollar figure for those residual amounts?

Mr Sutton—Not offhand.

Senator LUNDY—Ballpark?

Mr Sutton—With respect to the total expenditure, I have given you figures from 1999-2000 to 2002-03. There was expenditure of \$1.26 million in 1998-99. I have not got a calculator with me but if you add up those figures, my colleague on my left informs me it is \$17.21 million.

Senator LUNDY—Seventeen?

Mr Sutton—That is correct.

Senator LUNDY—That is still residual?

Mr Sutton—No, that is the total expenditure under the program.

Senator LUNDY—So it is \$14 million plus about \$3 million?

Mr Sutton—Over the complete life of the program, yes.

Senator LUNDY—About \$17 million. Have those residual amounts of about \$3 million already been allocated and spent?

Mr Sutton—Yes. When the single deed with the national entity was negotiated, that has effectively committed all the remaining funds under the program.

Senator LUNDY—When that program was first announced in *Investing for growth* in 1997, as far as we can ascertain, there was about a \$60 million allocation for Software Engineering over a four- or five-year period?

Mr Sutton—No. The allocation for Software Engineering and the Test-IT programs was of the order of \$28 million. That was only for four years.

Senator LUNDY—Sorry; I put a one in front of all of them. So it is \$28 million.

Mr Sutton—That is correct.

Dr Watt—The important point to make is that these were originally four-year programs. They were never intended to go beyond it. The objectives of the Software Engineering one are complete within that four-year time horizon.

Mr Sutton—Yes.

Dr Watt—They were always aware that it was a four-year program. The funds, therefore, in the outyears were surplus to requirements.

Senator LUNDY—I have tracked through previous estimates the issues relating to Software Engineering Australia, so I am aware of those. Again, I am making an assumption that there has not been any technical breach of how you allocate money within the department.

Dr Watt—We can assure you there has not.

Senator LUNDY—So it is \$28 million all-up. You have now roped in those savings, if you like. Can I ask a question about the \$14 million that is now to be spent on software engineering quality centres and the Test-IT program. Where does that money actually come from? From the line item you pointed out on page 50, it seems to be from just the general appropriations in the department and not associated with any innovation statement, grant or other allocation.

Dr Watt—This program is funded out of departmental expenses where we only show expenditure by broad outputs and outcomes. It is not an administered program, which would be shown in fine, program by program detail. That is why it is in that grouped item.

Senator LUNDY—That begs the obvious question: are there any other identifiable programs relating to IT that can be corralled in a similar way within that appropriation of departmental funding?

Dr Watt—When you say ‘corralled’—

Senator LUNDY—I guess in the way that you have described effectively \$14 million—

Dr Watt—You mean combined or aggregated to that figure?

Senator LUNDY—Yes. Where you pointed out that \$44.306 million figure and said that that is where both the software engineering quality centres and Test-IT came from, are there any other programs in that figure that I would find interesting? Maybe you should take it on notice and give me a full breakdown. I do not know how to ask the question. Tell me everything you know about \$44.306 million on page 50.

Dr Watt—I am sure you would find most of it very uninteresting.

Senator LUNDY—Quite possibly, but I am trying to work out a way to ask the question so that I do not waste your time and I do not waste my time.

Dr Watt—Let me try to help. There are a number of programs in there. As far as we are aware, none of the others relate to IT issues. Some of them do relate to broadcasting programs. We would be quite happy to take it on notice and provide a break-up of them.

Senator LUNDY—Thank you. I think that is probably as far as I can go with that. I will look forward to getting those answers. Going back to the telecommunications inquiry funding: in terms of the Besley response to extend mobile phone coverage to other areas, how does that relate to pre-existing funded programs such as mobiles on highways under the social bonus commitment?

Mr Bryant—That program under the Besley response will be additional to the mobile phones on highways program.

Senator LUNDY—Is it also additional to the mobile phone expansion program under the additional social bonus commitment?

Mr Bryant—Yes, it is.

Senator LUNDY—That money is not constituted from any reallocation from any pre-existing social bonus or related style grants program or funding program?

Mr Bryant—I understand that the \$9 million from the rural transaction centres that you referred to earlier will actually be put into that component. Apart from that particular amount, no.

Dr Watt—There is nothing we have not identified.

Senator LUNDY—What was the Besley response total?

Ms Holthuyzen—\$163 million.

Senator LUNDY—Do you have the total figure of what proportion of that \$163 million is actually funded by reallocations or savings found in pre-existing programs?

Ms Holthuyzen—Only the two numbers we have already told you—the \$9 million and the \$6 million.

Senator LUNDY—So \$9 million from rural transactions and \$6 million from rural Internet access. Potentially up to \$20 million additional?

Dr Watt—Not for Besley. If there are any savings coming out of the renegotiations with Farmwide, they will go back to the budget, on the basis that that program has already achieved its objectives.

Senator LUNDY—I turn to page 46, the item titled ‘Funding for consumer representation and research’. The explanation given is that—and I quote:

The Government will provide \$3.4 million over four years, starting in 2002-03, for consumer representation and telecommunications research.

This is cited as a Besley response. Can you give me some more detail about that particular program? In particular, why does the allocation only begin in 2002-03 rather than in this forthcoming financial year?

Dr Watt—My understanding is that it is funded until 2002-03 and the funding in the Besley response would be for a further four years. You asked for further explanation. The Besley response also indicated that priority would be given to ensuring adequate consumer representation for people with a disability and for regional communities.

Senator LUNDY—In the current program, is greater priority given to people with disabilities and in rural, regional or remote, or is that a refinement of the program with this additional funding?

Mr Bryant—Indeed, it is a refinement. Currently, consumer representation is a broader generic concept. There had been some concern expressed to the Besley inquiry that the needs of people with disability were not adequately taken into account, so that is the genesis of that component of the response.

Senator LUNDY—What was the source of the funding for the program that currently exists that this initiative seeks to extend? Was that social bonus money or T1?

Mr Bryant—I am informed that the money is administered by the department. It comes from a levy on telecommunications carriers. It is levied by the ACA.

Senator LUNDY—In terms of the money levied by the ACA, is that under the pre-existing program?

Ms Holthuyzen—This funding continues the existing program.

Senator LUNDY—Is it a supplement to the existing funding of the existing program? Is it more money?

Ms Holthuyzen—No, it was coming to an end. This one continues it on.

Senator LUNDY—Does that mean that levy is no longer going to be levied by the ACA for that purpose?

Ms Holthuyzen—No, the levy still continues.

Senator LUNDY—The levy continues and the money is still allocated to this program?

Ms Holthuyzen—Yes.

Senator LUNDY—Is that this money or is that different money from what is here?

Ms Holthuyzen—I am not quite sure what you mean.

Senator LUNDY—I am not quite sure what I mean, either. I think I have established that this is not supplementary funding to an existing program. A pre-existing program will cease and then this one will cut in.

Ms Holthuyzen—That is correct.

Senator LUNDY—Can I ask whether or not this level of funding here, the \$850,000 per annum, is equivalent to what is currently being allocated to that pre-existing program?

Ms Holthuyzen—Very similar. It might be \$100,000 more or something like that. It is of the same order.

Senator LUNDY—It might be marginally more?

Ms Holthuyzen—Yes.

Senator LUNDY—And the theory is that that picks up that greater priority for people with disabilities in regional and rural areas. Is that the concept?

Mr Bryant—The thinking was also that we are currently in a four-year program where the funds were set at a certain level, so there is a CPI consideration to take into account.

Senator LUNDY—With respect to the existing levy through the ACA, will that continue to be levied? If this is being funded through this item, does that mean that that money does not find its way back? It is a technical accounting point about how you get the money from the ACA levy through to here. I guess I am trying to ascertain whether there is additional money that could conceivably be allocated from an ACA level or whether it is just a notional book-keeping allocation anyway.

Dr Watt—The question of the ACA levy is one we are poorly equipped to answer. You might have to take it up with ACA tomorrow, Senator.

Senator LUNDY—I do not intend to pursue it with them. If you could take on notice to try and provide me with further clarification about the nature of the levy and how it relates to this program, that would be useful. The point that I feel compelled to make, which has nothing to do with the bureaucrats at the table, is that again it is cited as a telecommunications service inquiry response, but it is the continuation of a pre-existing and obviously very necessary program.

Dr Watt—Without wishing to argue, the point is that the previous program was funded for four years only. This continues on the funding at a slightly enhanced level.

Senator LUNDY—I appreciate that. I wanted to ask some questions about the digital interference subsidy.

Dr Watt—That is a broadcasting approach, Senator.

Senator LUNDY—So we cannot do that one?

Dr Watt—We do not have the right people here.

Senator LUNDY—We will save that one for tomorrow. I wanted to revisit the issue of the ICT centre of excellence; are those questions best asked here or with NOIE?

Dr Watt—They belong to the National Office for the Information Economy. NOIE are scheduled for later this evening.

Senator LUNDY—I am looking forward to that. Is this the appropriate place to ask questions on Net Alert?

Ms Holthuyzen—No. That is broadcasting as well.

Senator LUNDY—That is one of the ones I wanted to pursue because it obviously relates directly to Internet. Chair, on that basis, can I suggest that we break for dinner and come back to NOIE after dinner?

CHAIR—That is a very good suggestion. We will break for dinner now and come back at 7.00 p.m.

Dr Watt—Mr Chairman, could I clarify one point before we leave, relating to savings in the Rural Internet Access Fund. You were asking whether these were Besley related. My comment was to the effect that, because we have not completed the negotiations yet, Besley is already funded. Effectively, the government has committed that amount of money, so it has

committed that amount of money regardless of what might happen with our negotiations for Farmwide.

Senator LUNDY—I appreciate that.

Dr Watt—We are not waiting on funding Besley to get whatever we get out of those negotiations.

Senator LUNDY—Thank you, I did not interpret it in that way.

Proceedings suspended from 5.53 p.m. to 7.03 p.m.

CHAIR—I call the committee to order. Senator Lundy, did you want to make a comment about Corporate Services?

Senator LUNDY—Yes, I did. I was looking at the agenda and Corporate Services is listed for this evening. I thought that in terms of timing it might be more appropriate to reschedule it for tomorrow and either the questions will be handled by my colleague or I will be able to notify the committee first thing in the morning that we will be able to place those on notice.

CHAIR—What is your position on that, Dr Watt?

Dr Watt—We are happy to do that. Our preference would be to take them on notice, the reason being that Corporate Services people are here anyway. We would like to avoid bringing them back tomorrow if possible.

Senator LUNDY—Sure.

Dr Watt—Do you have many questions on notice?

Senator LUNDY—I am just conscious of time.

CHAIR—We are scheduled to go until 11 o'clock.

Dr Watt—We were expecting to do it tonight, so we are quite happy to do it. That is not a problem. In fact, a couple of people are coming back from dinner at home at a certain time.

Senator LUNDY—Okay. We will leave it there tonight. Thank you.

[7.04 p.m.]

National Office for the Information Economy

Senator LUNDY—Before I start my questions, I formally record my concern that the minister was not present at the hearing for a couple of hours prior to dinner and note that he gave an undertaking to return here by 7 o'clock this evening and that he is still not here. I ask the committee to formally note that and the fact that it makes questioning on policy matters impossible. As this is the major budget estimates of the year, I think that is something the committee should be concerned about.

CHAIR—Thank you, Senator Lundy. I do have to say, though, that Senator Alston had to go to a ministerial meeting. I am sure he will return in this segment.

Senator LUNDY—The first question I have is a very general one that relates to recent issues in the press. I refer to reports of Echelon eavesdropping on privacy and extracting information from emails. It is IT related, and I know NOIE involves itself particularly with issues relating to the Internet in the international jurisdiction and so forth. Has NOIE had any watching brief over the ensuing public debate about Echelon and similar allegedly invasive-style surveillance by using the Internet and email surveillance techniques?

Mr Rimmer—We read the press reports with interest. We do not have access to information about the systems that you are talking about.

Senator LUNDY—As far as NOIE does have that watching brief over—and correct me if I am wrong—international issues relating to information technology, are you able to express a view or articulate what you understand to be government policy about surveillance technologies such as Echelon is described as?

Mr Rimmer—I think that e-security issues are issues which governments all around the world are taking much more seriously at the moment. Senator Alston made an announcement late last year about the establishment of an electronic security working group, which is chaired by NOIE and which has participation by a range of security and law enforcement agencies. Essentially, we are working to ensure that there is an effective policy and a balanced policy about measures to protect against security threats and ensure that the community, particularly business, is aware of those issues.

Senator LUNDY—Is that an electronic security group, a working party under NOIE, a working committee of the board, or something like that?

Mr Rimmer—The Electronic Security Coordination Group is a group that reports to the secretary's committee on national security. The press release about it—

Senator LUNDY—Do you have that available?

Mr Rimmer—Yes. It was a joint press release by Senator Alston and the Attorney-General dated 2 February 2001.

Senator LUNDY—Would it be possible for you to provide that to the committee so I can refer to it while I am discussing this issue?

Mr Rimmer—Yes.

Senator LUNDY—Thank you. While we are waiting for it, can you to run through the participating departments or bodies on the Electronic Security Coordination Group?

Mr Rimmer—It consists of the Attorney-General's Department; ASIO; the Bureau of Statistics; the Australian Federal Police; the Australian Securities and Investments Commission; the Australian Transaction, Reports and Analysis Centre, AUSTRAC; Centrelink; Defence Signals Directorate; the Department of Communications, Information Technology and the Arts; the Department of Defence; the Department of Foreign Affairs and Trade; the Department of Industry, Science and Resources; the Department of the Prime Minister and Cabinet; the Department of Transport and Regional Services; and Treasury.

Senator LUNDY—I should have asked you who was not on it.

Mr Rimmer—It would have been a shorter list.

Senator LUNDY—Yes, it would have been a shorter list. That sounds pretty high powered at least. What sort of level officers actually attend those meetings?

Mr Rimmer—It is actually chaired by Tom Dale in our organisation. I will let Tom give you the details.

Mr Dale—The attendance varies depending on the issues that are being discussed, but the attendances are at the middle to senior management level. It is quite an active group and has quite a busy agenda. It is one, as Mr Rimmer said, that flowed from a slight rearrangement of some administrative arrangements some months ago now. Some of the issues are still settling down, of course.

Senator LUNDY—What were the rearranging of administrative arrangements? Is that what has been announced in the media release?

Mr Dale—Essentially, yes. Also, as I recall, it simply highlights the government's priority for these sorts of issues. I think it was a release jointly from Senator Alston and from the Attorney-General.

Senator LUNDY—The press release talks about national information infrastructure protection from viruses, hackers, denial of services, tax and information warfare. How often does this group meet?

Mr Dale—It meets approximately every six to eight weeks. It is primarily an interdepartmental or interagency coordinating group.

Senator LUNDY—By 'coordinating group' does that mean the group actually discusses strategies to protect national information infrastructure? I guess I am looking for a terms of reference or a description of its endeavours.

Mr Dale—The issues which the committee has been looking at include broad strategic approaches to protection of critical infrastructure in information infrastructure. It includes the role of law enforcement agencies in relation to electronic crime, which is a very broad term, of course. It also includes some possible initiatives relating to things like skills shortages in the e-security area, standards for information security for both government and the broader business community, and some international aspects of the information security issue.

Senator LUNDY—Some international aspects, did you say?

Mr Dale—Yes.

Senator LUNDY—Like what?

Mr Dale—For example, the work that is being conducted by the OECD working party on information security. They are reviewing the OECD's existing information security guidelines which date back to 1992. Obviously, a number of agencies have an interest in that as well as business groups and other interested parties. They are also maintaining bilateral dialogue with a number of countries on common issues.

Senator LUNDY—Are you able to nominate the countries that you have a specific bilateral dialogue with?

Mr Dale—There have been discussions with officials from the UK, Canada and the United States over the last six to 12 months. But, of course, agencies have existing bilateral arrangements, particularly on the security and law enforcement side. The work of this group does not cut across that in any way. They continue. What we are trying to do here is to look at broader issues of information security and their impact on the information economy. They certainly include law enforcement and security interests, but they also include what barriers there might be to businesses initiating better security measures. They include general information for members of the public. I think from a broad policy perspective the government would see all of these things as complementing the privacy safeguards that are being implemented through the amendments to the Privacy Act as well. As far as e-commerce is concerned, obviously privacy and security are very closely linked.

Senator LUNDY—And quite often confused.

Mr Dale—Indeed. Not by the government, I do not think, though. But it is a confusing issue for many consumers. It is important, I think, that governments at all levels are able to

provide clearer information, such as material that NOIE published last year concerning credit card security for consumers. We did that jointly with the Australian Computer Society, for example. Those specific issues, I think, are helpful, given that there is a lot of concern expressed through the media about viruses, theft of credit card data and so on. We are trying to focus on the facts rather than the more extreme views.

Senator LUNDY—There has been a bit of attention focused on these issues recently. I have a question on Echelon, which has cropped up in the media recently. Obviously, the way it has cropped up has caused a lot of concern. I am not even quite sure what it is that we are dealing with, but are you able to tell me whether this committee was aware of its existence—and I suppose it is not only within your scope of awareness—and what issues the government perceives need to be addressed, identified or acknowledged? I appreciate that I am talking about a security coordination group and there are some sensitivities in relation to that so I am not wanting you to cross any boundaries unnecessarily other than to find out if this is something you are on to and what your views are of it.

Mr Dale—My understanding is that the government's position with regard to Echelon has been to neither confirm nor deny Australian involvement in the system. It is primarily a national security issue, as I understand it, not an information economy issue. It is difficult for me to give any more specific comment than that. I am aware of the media reports which I think have arisen because of views that either the European Commission or the European Parliament, I am not sure which, took about US involvement in Echelon as they understood it. But that was a very specific issue which I do not have any further information on. The group's focus, as I said, has been on broader issues. The question of Echelon, if I can confine myself to what has been reported in the media—I am well aware of that—is a national security matter rather than one that goes to key information economy issues. But, as I said at the beginning, my understanding is that formal Australian involvement in it is not something the government has commented on one way or the other and I am not about to add to that.

Senator LUNDY—You are not able to go there.

Mr Dale—I cannot say any more about Australian involvement in it.

Senator LUNDY—Can you tell me generally then whether it has ever appeared as an agenda item on the E-security Coordination Group?

Mr Dale—To the best of my knowledge, no, it has never been discussed in that group.

Senator Lundy—Minister, welcome to the committee. Perhaps, Minister, I could ask you just to clarify the coalition's position with regard to Echelon. As Mr Dale and I have articulated, there have been lots of reports in the press. I am very interested in what the government's response is to the allegation of the Australian government's involvement in the Echelon service as described in the media?

Senator Alston—I do not know that I am able to help you. What are you wanting?

Senator LUNDY—What is the government's position on the allegations that the Australian government is a partner in assisting Echelon to provide surveillance on email and other Internet technologies?

Senator Alston—I do not think you would expect me to be giving you the low-down on national security issues.

Senator LUNDY—No, not at all. I am actually just asking you to repeat comments that the government has made publicly to date.

Senator Alston—I am not aware of those. I have been at an estimates all day.

Senator LUNDY—Part of the day.

Senator Alston—Part of the day. I did manage to pick up the national accounts figures, though.

Senator LUNDY—My understanding is that the government has chosen neither to confirm nor deny. I guess I am wanting it from the horse's mouth, so to speak.

Senator Alston—I suppose I could not do any better myself, could I? I do not know why you would expect me to have a separate view.

Senator LUNDY—I do not, necessarily. I am just wanting to hear it from you.

Senator Alston—I do not have anything to add to whatever any of my colleagues might have said. I do not know, was it the defence minister or the foreign minister?

Senator LUNDY—Are you aware of any comments that anyone has made?

Senator Alston—No, I am not, no.

Senator LUNDY—Can you take on notice to provide this committee with any response, whether it—

Senator Alston—Yes, I will give you a government response.

Senator LUNDY—has no substance or is full of substance, and provide it to the committee?

Senator Alston—I am sure it is in the eye of the beholder.

Senator LUNDY—Indeed. Does the government have a policy with respect to surveillance technologies, in particular with regard to the Internet?

Senator Alston—I do not know that it lends itself to a comprehensive position. If you are talking about some of the issues that have surfaced from time to time in the US—

Senator LUNDY—It is a very general question—

Senator Alston—There is the clipper chip and things like that. I do not know that we have really addressed it formally here. It has not really been an issue for us, to my knowledge.

Mr Rimmer—There is a well established legislative framework for communications interception, and I do not think there is anything to be added to that.

Senator LUNDY—I know what you are talking about. There is obviously a raft of legislation out there dealing with interception. My understanding is that that legislation relates to powers of law enforcement primarily for appropriate purposes, and depending on your perspective they are or are not in place. But what about the issue of the multijurisdictional nature of the Internet and how these issues are being dealt with in the international fora, for example, the OECD?

I guess I am trying to get an idea of how far along the government's thinking is with respect to surveillance technologies that are outside the control of Australia's jurisdiction in law. I think Mr Dale mentioned that one of the forums that you actually participate in as part of the E-security Coordination Group is the OECD, and you obviously monitor developments. I am just trying to get a sense of where your thinking is at in terms of the dialogue of pursuing a multilateral approach to setting some standards or some sort of ethical code in what kind of surveillance techniques are permissible and for what purpose, whether it is the commercial marketing side or whether it is the national security side. I say again that I do not expect you

to—and I know you would not—troll into sensitive issues, but I am just trying to get a feel for, in particular, NOIE's involvement in what are extraordinarily challenging areas of public policy.

Mr Rimmer—If I could talk by analogy of something that is well known and is a relatively good example, there is very extensive collaboration amongst securities regulators around the world in which ASIC participates. That operates by essentially cooperative arrangements and the development of joint approaches to dealing with problems of security fraud, 'pump and dump' schemes and the general range of things. There are a range of issues that arise in that which have been commented on in the press relating to the need to have some source of evidence once it comes to law enforcement. But I would have to say that it is at an early stage of consideration of those issues in relation to securities matters. That, I think, is an exemplar of the approach that is taken.

I think governments around the world are at an early stage in identifying the issues and discussing the range of policy responses that might be required. What has become evident over the past few years is that there needs to be a balanced approach taking into account all of the security, commercial, economic and other considerations. I really think that we are very early in that process.

Senator Alston—It is somewhat similar to the debate about how you capture legitimate tax revenue on the Internet. If you put aside rogue states and places like the Caribbean where they deliberately want to be outside the system for their own benefit, there is a high commonality of view amongst developed nations, in particular. But part of the difficulty is that technology keeps changing. So it is relatively simple to identify the principles that operate and everyone could piously subscribe to a treaty that did that, but if you actually wanted to be effective, then in a sense it is a moving game. We have found that with Internet content regulation and various other activities.

I think that quite a debate has gone on in recent years, most accurately captured by the *Economist*, where there is increasing recognition that there is a legitimate role for government to play in terms of trying to control the Internet but clearly not in such a way as to stifle commercial activity or to interfere with people's privacy, but to do it within the limits of technological possibilities. Because they keep changing, then the debate will keep changing. You are not going to get to a point where you say, 'Well, okay. We have done a lot of consultation and here is the definitive regime.'

Senator LUNDY—I think that is accurate. In terms of issues like Echelon, because it is described as a national security issue there is a point at which public debate cannot develop because there is a 'no confirm, no deny' sort of response from government. So the big questions—the ethical issues—about that kind of surveillance and for what it is used do not get developed within the national jurisdictions. So, hence, the international debate around those issues remains underdeveloped. That is the feature about the surveillance technologies that does not apply to the two examples you just used, which is collection of tax revenues and Internet content regulation. I guess I wanted to make that point and again ask if there is any way forward that this government sees in giving some expression to what, for want of a better word, the ethical boundaries are for surveillance technologies regardless of how they relate to what people are concerned about, being national security issues, and, if so, if the coalition is intending to give some direction on that?

Senator Alston—Again, I suspect that you need to get down to a level of precision which would conflict with your ability to go public. In other words you could say, 'On a whole series of principles you should not unfairly intervene with people's movements. You should not

interfere with their private lives.’ But then you come up with some technological breakthrough which enables you to do a whole range of things you never thought were possible and you then have to decide in relation to that technology whether there ought to be limits and, if so, where. It is very difficult, other than wanting to reinforce the ethical values that you think should drive an approach to all of these things, but you will not ever get it down to the level of detail I suspect you want.

Senator LUNDY—That is the point I am making that, whilst the level of detail might be lacking, it is possible to give strong expression to what is considered ethical. One example is the use of information—and this is hypothetical; I do not know if there is too much point in going much further—that is ostensibly collected for national security purposes being subsequently applied for a different purpose, for example, corporate intelligence. This is one of the issues that has been raised in the Echelon debate, that it is being used for corporate intelligence.

Senator Alston—You mean on-sold?

Senator LUNDY—No, I do not, because I do not know, but the allegation is that the information is being used for purposes beyond which it is ostensibly being collected. You can see where I am coming from here, trying to ascertain the extent of this, trying to have some public discussions so that opinions, policies and expressions can be given and formed, et cetera, without being gagged by what is arguably, from some parties at least such as the government, a national security issue. Do you see what I am saying? There is a line there that I think does traverse into information economy matters and information society matters and that needs to be discussed and developed; that should not be gagged, if you like—and I am not alleging you are gagging it—by virtue of the fact that the source data has some association with the national security issue or initiative.

Senator Alston—I do not know that I can add much more other than to say that, no matter who is in power, you will find there are very serious constraints on what you can say in public. To the extent that it is desirable to have a public policy debate about the principles, that will not ever really tell you how they are applied in practice. Presumably with military industrial complexes in a number of countries you can find that there is a pretty grey line. People will leave those organisations and set up in the private sector. There are start-up ventures in Canberra where people come out of the defence department. Presumably, they are bound by the Crimes Act and they sign various undertakings, but they must take away a fair bit of IP in their brains which they then apply. It becomes difficult. If you are asking, ‘As a matter of formal government policy should you promote the use of government information for commercial purposes as well,’ I think that is an interesting question, but I suspect it will be very difficult to answer, because you will have to deal with a whole range of possibilities and you may still not get a definitive answer.

Senator LUNDY—I do not know if there is too much further we can go with that. I have one point. You mentioned dialogue with a number of bilateral partners—in effect Canada, US and UK. Because a lot of the current press reportage on Echelon emanated from discussions, as I understand it, in the European parliament, or at least in the European Union and European Commission—

Mr Rimmer—What has been reported is that the European parliament has produced a report on an investigation that they have been doing for about two years. The Echelon program they are reporting is essentially about satellite surveillance, not about all communications surveillance. The final report was less alarmist than the initial discussions.

That is essentially the appreciation we have been able to make of it. What I would say is that we apply fairly rigorous priorities to the way in which we spend our resources, which is essentially what we have to do. Our priorities in relation to e-security matters are much more directed at issues of organised crime, fraud and so on. On the basis of the information available to me, that is our perception of the most important thing to be doing.

Mr Dale—I think that is a very good summary of what we are doing.

Senator LUNDY—What level of confidentiality is attached to the deliberations of the E-security Coordination Group?

Mr Dale—That again depends on the issues it has under consideration. The majority of the issues to date have been able to be discussed at a very low level of national security classification, if indeed any formal level needs to apply. Generally the more sensitive matters will be taken up in, obviously, smaller groups or within other forums, but within that group we have tended to focus on things that are generally, with some exceptions, not needing a high level of national security classification. That seems to have worked so far.

Senator LUNDY—And has the European parliament in any way asked for a response from the Australian government on this matter?

Mr Dale—Not that we are aware of.

Mr Rimmer—It is a report of the parliament rather than of the executive agencies of the European Union anyway, so I would be surprised if they did, but we are not aware of any.

Senator LUNDY—I am just trying to track back to see if there is any sort of diplomatic pathway or process that now needs to be addressed between, as you say, the executive arm of the European parliament and the Australian government. So you are not aware of any?

Mr Rimmer—We are not aware of any, no.

Senator LUNDY—Is there any formal dialogue going on on this issue between the European Commission and the Australian government?

Mr Dale—On this issue I am not aware of any specific dialogue at the moment, no. There is a broad agreement concerning cooperation and exchange of information on e-commerce and information economy issues between Australia and the European Union, but as far as I am aware this specific issue has not been taken up on a bilateral basis. I cannot give 100 per cent assurance on that, but I am not aware of any.

Senator LUNDY—Could you just take on notice if there has been any formal dialogue or discussion or exchange? Just going further on that, privacy, I know, is another issue of considerable concern to the European Union and the European Commission. I wanted to get an update from you about the European Union's response to the privacy bill as it relates particularly to electronic issues, Internet-related issues.

Mr Dale—That matter is still, of course, the responsibility of the Attorney-General. I believe that the attorney and his department have been having discussions with business and other interests about the possible impact of the European Commission's initial view of the Australian privacy legislation. But I think it is important to note that all of those matters are still very much works in progress. I understand that a final position has not been taken by the European Commission, to some extent because the legislation passed by Australia is still being implemented, of course, and will not become fully operational until December this year. Until the effects of that and the way in which it is implemented, particularly by the federal Privacy Commissioner, are known—I understand that a lot of those issues are still open—I

think the government, again, through the Attorney-General's Department, as it is not our primary responsibility—

Senator LUNDY—I appreciate that.

Mr Dale—I understand that that department has had some discussions with a number of businesses in Australia which had concerns about the possible impact of an ECU on their operations concerning trans-border data flows, but I think those discussions are still at an early stage as well. It is not clear at the moment that the European Commission is going to do anything other than indicate a tentative view, which is what they have done. That tentative view was generally negative in relation to some parts of the Australian legislation, but that does not automatically mean that particular regulatory action will be taken at the European end, as we understand it. And it is some way off, if indeed it happens at all. In the meantime, the Attorney-General's Department is pursuing a dialogue with businesses who may be affected, but I am not aware that major practical problems have been identified yet. It is still at an early stage.

Senator Lundy—Minister, is the government in a position to contemplate amendments if the European Commission reaches a conclusion that in fact the Australian legislation does not conform to the degree required to meet their directive? I think we still refer to their guidelines as a directive.

Senator ALSTON—We will no doubt respond constructively when they hand down an assessment. I do not think you can really talk in terms of being ready to change our regime. We will wait and see what is said. I mean, we always have the capacity to change if we want to, I suppose, but I really do not know what you would like me to say.

Mr Rimmer—I think you could say we were surprised by the initial assessment and that we think our privacy regime does comply with the directives and that, therefore, that is the avenue which is being pursued.

Senator Lundy—Would you undertake on notice, Mr Dale, to provide the committee with, I suppose, the points of concern raised by the European Commission that they feel do not comply with their directive?

Mr Dale—Yes.

Mr Rimmer—I think it is important to stress that this was a draft conclusion for comment by us. They have not made a determination about it yet.

Senator Lundy—But they have expressed their concerns, though.

Mr Dale—There is material on the public record, as I understand it, and I think some comments from the attorney. We will assemble those for you, too.

Senator Lundy—And perhaps also what you have by way of a chronology of the dialogue between the European Commission and the department or NOIE in relation to this matter. That may or may not be appropriate. I do acknowledge that it is primarily handled by the Attorney-General's Department, but whatever insight you could provide in terms of the nature of the dialogue and in particular the timing of those exchanges in relation to the passage of the bill would be useful.

Mr Dale—We will do our best.

Senator Lundy—I do recall asking questions previously, I think in fact prior to the passage of the Privacy Amendment Bill, about whether NOIE, the minister or the government

were of the opinion that it did conform, and my recollection is that I was reassured that in fact it did conform.

Mr Rimmer—As I said before, we are still strongly of the view that it does.

Senator LUNDY—I will watch with interest. Have any other concerns been expressed by any other international body or overseas jurisdiction about the Privacy Act?

Mr Dale—About the Australian legislation? Not to my knowledge.

Senator LUNDY—I would like to turn to the general direction of NOIE. Mr Rimmer, I would like to refer to a speech you gave recently.

Mr Rimmer—It is always a dangerous occupation.

Senator LUNDY—Yes. It is all on the Net. It is a speech you gave to the Press Club in April, so it was not long ago. I want to generally explore this matter. Obviously, we are aware that NOIE underwent some quite significant restructuring and new parts were brought in. I wanted to pursue with you the issues that you chose to focus on in that speech; in particular, the innovation statement and other aspects of the government's plans with regard to the information economy. You referenced five pillars, if you like—one being benefits realisation, the second being industry convergence, the third, innovation entrepreneurship, the fourth, the digital divide and the fifth, security issues. We have talked a bit about security, so can I ask you to extrapolate on what you see as each of the five pillars and NOIE's role in each of them. Then I will come back to how they relate to policy issues.

Mr Rimmer—We have effectively three lines of activity. One set of activity supports innovation and growth on the supply side of the information economy—the information and communications technologies and e-business services suppliers. There are a number of significant initiatives in the Backing Australia's Ability statement affecting the information and communication technologies industries. We are responsible for the carriage of some of those; in particular, for the ICT centre of excellence, so we can talk about that at some point, and I will ask the general manager responsible to join us for that.

Of equal importance to us, though, is the diffusion of online tools and structural adjustment in the community and the economy generally, which is really the use of the tools. If you say that the supply side is about building tools, then in terms of the broader economy, we are interested in the effective use of those tools. You will have noticed the budget paper which was looking at the potential benefits to Australia and the structural adjustment that will be necessary from the use of those tools. There we are involved both in a range of projects which encourage the uptake by individuals and skills in general and also in a range of initiatives to encourage the diffusion of electronic commerce tools in the private sector. We have initiatives around there. The third group of activity is, if you like, a specific case of that structural adjustment, which is within government itself. How does government use the tools? We have the Government Online group of activities.

Essentially, these are our priorities. There are many other specific activities that we do in relation to particular issues, but our major focus is on those things. We believe that there are strong synergies between them; that when you are looking at Government Online, you have to look at it in terms of the contribution that it makes to efficiency within government, to the improvement of service delivery to the users of government services, and to its role in promoting the general advance of the information economy by government being a significant user of the tools.

Similarly, in relation to issues of encouraging the use of technologies by individuals, IT skills and connectedness of households in Australia generally, this obviously has a

contribution to individual wellbeing and life chances, but also it is an issue that goes to the general skills level of the population as a whole. Finally, everyone needs to be connected in order for people to benefit. There is often a discussion as though the people who are not connected are losing, and it is certainly true that there are disadvantages that people have if they are not connected to new tools which are of social and economic significance. But it is equally the case that the people who are connected lose if a significant group of the population are not connected. These particular priorities contribute to more than one of our goals. I do not think there is much point in going on about that, but certainly we are having a much clearer focus on priorities.

Senator LUNDY—In terms of those three major areas—the supply side, the demand side, as you describe it, and then the government’s role—because you obviously have a strategy to improve the situation, what sort of metrics or measurements do you have in place to assess yourself or the government, if you like, on achieving some change from the current status quo? I am looking for your evaluation methods on the success of what, on the face of it, look like well articulated, worthy aims and goals to set. However, one of the consistent criticisms of NOIE has always been that it is about having worthy, lofty goals but with little ability, by virtue of structure and substance, to actually achieve change through the work that you do. I am just trying to get a feel for what has changed now, with the restructuring of NOIE and what evaluation processes and actual measurements you have put in place to assess the changes that you are striving for, thereby hopefully introducing some public accountability into the whole exercise.

Mr Rimmer—The outcomes that we are directed towards are inevitably multicausal, so it is very difficult for us to say whether the significant increase in connectivity in rural and regional Australia is a result of our particular efforts. It is worth noting that that rate of connectivity is increasing at more than double the rate of connectivity in the population generally. We think it is at least in part attributable to a range of activities that have been undertaken. That is at the far end of outcome evaluation. At the short end we set clear tasks around projects and measure whether they are deliverable; so in relation to the Information and Communication Technology Centre for Excellence, for instance, there is a clear timetable for what has to be done, there is an articulated project plan, and considerable effort being devoted to meet that.

So our first line of assessment of what we are doing is: are we actually meeting the tasks which have been set in those things? I think one of the approaches to making NOIE more effective is to be clearer about specific projects and specific deliverables. At the middle level, we attempt to measure changes where it is essentially how much has been delivered. And that is an area where, I would have to say, we are working on metrics and evaluation methods; but it is nonetheless an important task. It might be worth asking Mr Besgrove to supplement that, because I know it is an issue that he has given a lot of attention to, and we might talk about the ITOL project as an example.

Senator LUNDY—There are many angles on this. There is measuring the technology diffusion and usage, where I suspect the measure by default becomes the uptake, and that is relatively simple. I am more interested—I am always interested in that, but I am more interested in things where the measures have a value judgment placed on them, for example, information and communication technology industry growth whereby there are a range of measures, some that give different expression—that is, comparative performance or relative performance—to comparable economies overseas or trend growth rates in the domestic economy for comparative purposes. So I am more interested in where the government is

heading in establishing evaluation criteria with the supply side, if you like, of ICT innovation and growth here in Australia. Does that make it a little easier for you to focus on responding? I know it was a very broad question.

Mr Besgrove—I am not sure that I can fully respond to the issue you just raised. NOIE obviously tracks changes in the growth rates for employment, numbers of firms, exports and so on in relation to various aspects of the ICT industry in Australia. I think it is fair to say that, over the last few years, you have seen a number of trends going on there and fairly substantial growth in the number of companies—I believe something like an increase, as measured by the ABS between about 1996 and 1999, from 14,000 up to just under 19,000 firms, so you have seen quite substantial growth in the number of companies. Obviously, most of those are fairly small. I should probably give you more accurate numbers. I am dealing with some of these from memory.

Senator LUNDY—That sort of data is in the state of play report.

Mr Besgrove—Yes. What I am leading towards is that, if you break that down into the various components, you will see that the growth rate has been fairly modest when you look at the hardware industry, somewhat more impressive when you look at software, and very rapid when you start to look at the IT services sector; and I think it tends to reflect some of the competitive advantages that Australia enjoys in the services sector. So if you said are we tracking what is going on in the industry, we certainly are—in collaboration with the department—and I think it is fair to say that we have seen a fairly consistent trend towards substantial growth in services.

If I could go back to the beginning of your question—is this one of the performance measures that NOIE uses to gauge its own performance—I would have to say not directly. We are certainly looking at some of the things which Mr Rimmer has talked about. I think it is also quite important to understand that it would be relatively simple to relate NOIE's performance back to the uptake of e-commerce and so on. I think you have to be a bit more subtle than that and try to identify what you think the natural rate of growth might be—and that is always difficult to do—and then see if we can actually ascribe any additionality in terms of the things we do. That is inherently difficult, and I think that you find yourself invariably falling back on what kind of feedback you are getting from your government and domestic industry and public stakeholders and also what sort of feedback you are getting from international stakeholders. And that is the direction of our thinking at the moment in this area.

Senator LUNDY—I will go to the specifics and more detail about various growth rates. But just on that point of trying to apply evaluation criteria to your efforts, how far have you been able to ascertain what the normal—for want of a better word—growth rate would be in some of these areas, as opposed to an enhanced environment theoretically contributed to by government policy?

Mr Besgrove—As Mr Rimmer has indicated, this is work in progress. I cannot give you a conclusive answer. In relation to some specific initiatives, it is clear that some of NOIE's actions have made a difference in specific areas. Mr Rimmer referred to the ITOL program and some of the areas where ITOL has provided quite modest catalytic funding, which appears to have led to at least potentially quite substantial pay-offs for the economy. We are yet to see some of those benefits actually arrive, but the early reports are favourable.

Senator LUNDY—Given that this is work in progress, is it your aim at the end of your deliberations to actually come up with a set of metrics that will assist you in evaluating yourselves and your own performance but also, obviously, providing an as accurate as possible indication to the government about the relative success of different policies—acknowledging, too, that some are going to work and some are not, but being able to at least

ledging, too, that some are going to work and some are not, but being able to at least make those assessments?

Mr Rimmer—I think that our highest priority will be on identifying possible metrics for particular projects. So if you were to talk about the innovation components, you might say there are already metrics about research output, patent applications, new company formation, employment growth and that these are things which we would build into a specific project. In relation to projects in relation to encouraging the uptake of the Internet, we might set specific targets so that if we undertook project A, that this would lead to a greater than expected level of connection. So our first priority is on identifying at the very specific project level how we might get more realistic measures of whether we have made an impact or not.

Senator LUNDY—Minister, perhaps I should ask you. I suppose, working from an assumption that the information and communications technology area has particular significance because of its enabling capability as well as its status as a significant growth sector, are you able to give an indication of the government's policy or view about higher-level measures or criteria for evaluation of the success of your policies? Mr Rimmer has been talking about how NOIE can provide a reasonable granular assessment of their projects that they implement. I guess I just want to try to tie you back to some of your rhetoric about the need to grow those industries. Notwithstanding that, we have seen very little in the innovation statement and other initiatives that starts to set goals, like, 'We will try to reverse the ICT trade deficit', et cetera. Do you know what I mean?

Senator Alston—Trade deficit?

Senator LUNDY—The trade deficit, yes—or indeed, 'We want to improve Australia's relative standing as far as OECD countries are concerned in the outputs of ICT products and services. Do you see what I mean? I am trying to get from you at least some higher-level goals that the government is prepared to identify as being part of your whole strategy—part of what NOIE is all about, part of what your industry policy is all about, part of what your department does in other areas.

Senator Alston—I am sure that you have read them, but NOIE has published a number of strategic directions documents. I am more than happy to take the judgment of the international community, UN agencies, international investment banks, the Economist Intelligence Unit. There have been a whole swag of reports that have come out over the last 12 months telling us that we are absolutely on the right track. So I would rather play on performance rather than on vision. We will certainly have some emphasis on particular directions in due course, but I think that we have already made it clear.

I am surprised that those who are involved in Knowledge Nation—and I presume you open your mouth at these meetings; you seem to be blissfully unaware that we have already identified ICT and Biotech as two areas with enormous potential. You are out there talking as though this is a recent discovery of yours and that we ought to make up for lost time by nominating them. The whole purpose of identifying two centres of excellence and putting \$129 million into the ICT one was to nominate those sectors as very important ones for Australia.

If the Economist believes that we are No. 2 in the world in terms of e-readiness because of our superior legal and regulatory framework, then that is a pretty good endorsement for me. There have been a lot of reports in recent times that have disposed of that canard about us being an old economy—I do not know, maybe you do not read them, but I could probably

give you a list if you are interested. Access Economics only a few months ago was saying that we should well and truly concentrate on the use and application rather than simply the production of. I would be very pleased if you continue down the path that you are going, which seems to be that you want to turn Australia into a production powerhouse for hardware, because I think the time for that has well and truly passed us by. Our comparative advantage is much more in the services and software sectors rather than hardware, although there are opportunities in certain areas. But we can have this debate at a later time. You can identify an alternative vision if you like, but I think that you ought to do it against the background of a number of reports which have given us a big tick for the direction in which we have been going.

I think that it is very unfair to put to NOIE that somehow they cannot really identify their successes. We regard NOIE as an integral part of our whole IT operation and why we have been very successful in applying IT to a number of traditional sectors. I could go on for hours about all of this, but if you take the mining sector, there is no doubt that Australian software is leading edge. If you take banking, finance, insurance and retail, again we are a long way ahead of countries like the US where they have a mishmash of regulatory regimes. They just simply do not have the take-up of technology that we have in this country. I think in a number of so-called traditional sectors, the application of ICT here has made a profound difference and been internationally recognised.

Senator LUNDY—I guess the questions I am asking relate to whether or not the government has a passive approach to these developments or an approach—

Senator Alston—These things do not happen by accident. We are not just No. 2 in the world because someone—

Senator LUNDY—This is the question I am asking.

Senator Alston—Someone paid a visit to Australia and said, ‘We had better put them No. 2 on the list.’ They did it because they make a rigorous assessment of every country. I think that we came from 15 last year to No. 2. Why do they do it? They do not do it because we are sitting back on our hands hoping that somehow someone will do the right thing; they do it because they acknowledge that we have put all the essential building blocks in place.

You are out there blithely saying that we need new incubators. We have just announced a whole raft of incubators. You have never supported any of them, but they are out there. You have not supported anything out of the BITS program or the billion dollar social bonus package. All you have really done is say that you will cut off the NTN at its socks and anything that you can get your hands on to fund new policy proposals. Presumably, you will close them down. Incubators are another reason why people regard us as making very significant progress. Tackling commercialisation of ideas is what the innovation action plan is all about. But none of this seems to come through in your Knowledge Nation rhetoric. You pretend that somehow we have been doing a Rip Van Winkle.

Senator LUNDY—I will go back to my question. In terms of the government’s direction with all of this stuff, by evoking all of those reports and different measures that you have that are carefully documented in all of those positive statistics—that you claim are carefully documented—

Senator Alston—Glowing third-party endorsements is what I would call them.

Senator LUNDY—Very selective, and I will come to that.

Senator Alston—You give me the contrary ones.

Senator LUNDY—I will.

Senator Alston—It is hardly a negative report.

Senator LUNDY—Do not tempt me.

Senator Alston—If you are going to quote David Hale, or someone, I can blow him out of the water.

Senator LUNDY—That raises a very interesting point. I will resist the temptation. The question of evoking all of those third-party assessments, as you say carefully documented by NOIE—

Senator Alston—They are not documented by NOIE. I put them together myself. They pop up in the newspapers. You should be keeping track of them as well. It is not NOIE's job to tell us how well we are doing based on international reports. They would be aware of them but anyone can put them together, and I can assure you that we have done it in the office ourselves.

Senator LUNDY—There is still very little articulated by the government in terms of what you hope to achieve. This is the point I am making about the government's own evaluation criteria. It is the difference between having a passive approach to industry development with a series of quite granular initiatives, which have their merits—as Mr Rimmer has pointed out, you need to have appropriate assessment of them—and the expression of, I suppose, broader goals relative to other economies, I suppose more substantial economic measures of the success of your initiatives. Whilst you have cited some examples that you claim you have done well, there are plenty of other measures that you are as familiar with as the good news stories, like the decline in R&D investment, like some assessments of various institutions about the level of—

Senator Alston—You know as well as I do that those R&D figures are profoundly misleading because of syndication and other experiences. The number is artificially high. You pay on results. You do not pay on the extent to which people can find ways of claiming tax deductions for R&D or for reclassifying their human relations programs as leading-edge research. You pay on the results you get and what companies come through the system, the extent to which new ideas are properly commercialised.

Senator LUNDY—Let us go to this point about companies coming through the system. The Australian Computer Society recently sponsored a report *In the information industries* by John Houghton from the Centre for Strategic Economic Studies. While we are on this discussion I would like to run through the key findings and ask you to provide a response. I will just read the section on the report highlights. It states:

The development of Australia's information industries during the 1990s is a tale of two periods. The first half of the decade was a period of rapid growth, but the second half was a period of relative stagnation and decline.

The first point they make, Minister, is that information and communication technology specialist businesses created up to 77,000 additional jobs in Australia between 1992-93 and 1995-96 but lost almost 2,500 jobs between 1995-96 and 1998-99, a remarkable decline in what are supposed to be high-growth industries. What is your response to that point, given that it has never been included in any of your statistics? I do not mean to put too fine a point on it. We can all be selective, but I would like a specific response to that.

Senator Alston—You would need to know a lot more about what it is that provides a basis for making those sorts of assessments. But the ICT sector has been growing at double-digit rates now for some years. You will have noticed in today's national accounts figures that one of the stand-out success stories was the communications sector. You have got in excess of 70 carrier licences issued since full and open competition in 1997.

Senator LUNDY—How many?

Senator Alston—There were over 70 carrier licences issued. There are close to 1,000 service providers and ISPs. You can argue that there are too many, but there is no shortage of them out there. In many respects, of course, a lot of them have come off their highs, as they have around the world. I think Telstra has probably survived the downturn better than most, but there have been shake-outs in this sector of companies that were regarded as blue chips in other countries. So it is not surprising that a few of our smaller fry might overstretch themselves. Employment growth has been very marked.

I mean, I do not know on what basis they claim that. I certainly have seen games played with statistics, because it is all a question of how you characterise employment. I mean, if Telstra downsizes then of course the unions run out and claim that that is a loss to the sector. If some of those people go off and start up their own business, they may not be characterised as being in the telco space at all. I mean, if you take Leightons and Skilled, who are the two major contract labour firms doing work for Optus and Telstra, I am not sure whether their employment numbers show up under telcos. These numbers can be very misleading.

Senator LUNDY—The point I am making is that there is a counterview and a set of counterstatistics to the positive picture that you paint.

Senator Alston—There can be superficial criticisms, and you have turned that into an art form.

Senator LUNDY—It is all relative, isn't it? I mean, this is not even my material, Minister. This is from the Computer Society.

Senator Alston—It is not relative at all. I prefer to rely on international assessments of substance. I am just saying to you: that is your first point. I do not think that is particularly valid.

Senator LUNDY—Are you familiar with this report?

Senator Alston—I read a report of it in the newspaper. I think we might have even put out a press release refuting it, but I have not read the report and I had not heard of Houghton and I do not know his outfit.

Senator LUNDY—Okay. There are a number of points about the decline in manufacturing, which we have touched on already. I think people are fully aware of the bottoming out of manufacturing in ICT, but—

Senator Alston—You could buy yourself a \$2 billion fab plant—probably you would have to pay a lot more these days, but you could probably buy one—and you could probably give a whole bunch of multinational IT companies great tax holidays to encourage them to do equipment manufacturing here. Does it really add value? Is that where Australia's comparative advantage is going to come from? I do not think so. I think our skills sets are much more in the area of engineering science and maths, which we need to have more of and which we are in the process of promoting, and then that leads through into these services and software sectors, where I think we do have a very impressive track record. They are what you ought to be promoting, not just manufacturing at any price.

Senator LUNDY—Okay. Look at it from the perspective of what type of businesses are able to establish themselves and grow here, regardless of the sector.

Senator Alston—The US has the largest IT trade deficit in the world, I think.

Senator LUNDY—Just let me finish my question. They also have government procurement policies that favour American companies, unlike here. So there is—

Senator Alston—We favour SMEs. You know that. You seem to be always wanting to ignore the fact that we have actually managed to save about half a billion dollars to date from IT outsourcing. But if you do not think that is significant, that is a matter for you.

Senator LUNDY—How much? Half a billion?

Senator Alston—Something of that order, yes.

Senator LUNDY—I would love it if you chose to be more specific about the figure you are prepared to name on your savings, Minister.

Senator Alston—I am saying it is a very substantial sum—hundreds of millions of dollars.

Senator LUNDY—Do not sidetrack me. There is another point I want to ask you about here. One of the other issues in this report sponsored by the Computer Society is a hollowing-out with respect to the types of businesses that are emerging and growing. We heard earlier about the number of businesses in ICT having grown significantly, but this report analyses that to a finer degree and identifies that the significant growth has been in the small and micro businesses but there has been what they have described as a hollowing out, with a declining proportion of medium sized enterprises in information and communication technologies. The commentary accompanying that definitely indicates that it is those companies that tend to be the Australian companies that have gone through at least an initial growth phase and then find themselves squeezed out once they move into that sort of medium sized space and find themselves competing with international companies perhaps offering services or product. Because that has a relationship with Australianness and our ability to actually build up local companies and provide growth opportunities, my question is: is that issue one of concern for the government and does the nature of the types of businesses that are actually proliferating in Australia factor into your previous estimates about where you need to support and grow local ICT businesses?

Senator Alston—Obviously, the aim is to turn small companies into medium sized companies and hopefully into large companies. You cannot go from top to bottom overnight, but there have been quite a number of second wave IT companies that have been very promising. We touched on IMincom before, but Aspect Computing would clearly be one. ERG and smartcard technology is another. There is SecureNet and Baltimore in authentication and encryption. I did hear that MYOB's share price was down about one-hundredth of where it was a couple of years ago. But with accounting software I think it had a pretty good business case.

Senator LUNDY—Do not get me wrong; I know there are some glowing examples of exceptional Australian medium sized businesses. But the point is this trend, that is a trend within the growth trend that identifies an issue of concern about the nature of businesses that we are capable of growing here, is that a concern of yours? Minister, I am not even trying to be political about these points. I am actually genuinely interested in what you are trying to achieve.

Senator Alston—No, I understand the spirit in which you are canvassing this.

Senator LUNDY—I again hark back to the point I made before—that is, what are your strategic measures in trying to achieve a stronger performance by Australia's ICT industry?

Senator Alston—Can I put it to you this way: rather than going down the path which it looks as though you will be going down, of putting everyone else out of business except Telstra, rolling back competition and then essentially using it to perform—

Senator LUNDY—I do not know what you are talking about.

Senator Alston—If you do not read the *Financial Review*, then you should start looking at it.

Senator LUNDY—And I am resisting taking opportunities like that this evening, so I expect a similar response, Minister, so we can keep the conversation going.

Senator Alston—All I am saying is that our approach is quite the opposite. We believe in maximising competitive opportunities. We certainly want to see 100 flowers bloom. That is why the whole thrust of the innovation action plan is to bring through as many start-ups and new and emerging IT companies as possible. You may well be right that it is particularly difficult when you have a significant degree of geographic isolation. There are many companies like Radiata which will sell out or LookSmart which will go offshore or Resmed which, although it says it was born global, has basically been in San Diego for the last decade. There are other Australian companies in places like Phoenix and Austin. You cannot stop these people doing those sorts of things. You would prefer them to stay here.

If you look at what the Israelis have done, they get vast amounts of capital coming in from the diaspora in the US, but what tends to happen is most of those companies rush off to Silicon Valley as well with all their senior management. At least we have managed to do a fair bit of the R&D back here. Even your friends at LookSmart still do that. So, in that sense, I think there has been a recognition that this is a place for high-end research and establishing world-class centres of excellence will help to add to that. If you ask me what our overall goal is, it is a mix of trying to generate as many good ideas and commercialise them, provide as many opportunities for those to transform into new and emerging companies and hopefully move on to the world stage.

I do not subscribe to the national champion argument that others run. I prefer Michael Porter's assessment that you are best to let them hone their skills in a highly competitive marketplace at home and then they are much more likely to perform efficiently offshore. If innovation is the name of the game, and I think it is, I do not see any real slowing down in terms of the generation of ideas and IT opportunities and new technologies coming through or any slowing down in their application to a range of other sectors. We have to do as much as possible to stimulate that. That is why we need incubators, to build fast backbone networks and promote as many regional telcos as possible—in other words, do as much as we can in as many areas as possible to let these things prosper. It is not a matter of getting in there and artificially handing out grants to preferred customers.

Senator LUNDY—You should talk!

Senator Alston—This is the VEDC. Again, one could imply from today's article that you will be going down that path in due course—

Senator LUNDY—Let us have a bit of conversation about that.

Senator Alston—with extraordinarily generous R&D concessions and the like. All that does is distort market behaviour.

Senator LUNDY—I want to raise a couple of issues. You tempt me to respond to a couple of points you made. One of them I will respond to relates to the issue of Telstra. From what I can see from my analysis, there is no singular greater beneficiary from government grants than Telstra in the whole raft of NTN and social bonus programs.

Senator Alston—I do not think that is right.

Senator LUNDY—I think you had better go and look at your numbers.

Senator Alston—Let us take CDMA. It got about \$19 million. Vodafone won the \$25 million highways contract. Telstra won the \$150 million proposal.

Senator LUNDY—And what about the ones that it does not even have to competitively tender for, Minister, where you just do a joint arrangement with it?

Senator Alston—What do you mean?

Senator LUNDY—Do not make assertions about favourable treatment of Telstra when I can see no less than half a dozen examples where the government has embarked upon a joint initiative with Telstra in some way with no hint of—

Senator Alston—Telstra is putting in significant sums of money.

Senator LUNDY—So be it, but it means it gets a windfall from government.

Senator Alston—What do you mean ‘So be it’? Are you critical of that or not?

Senator LUNDY—It depends on whether or not it is a service it should have provided under its legislative and community obligations.

Senator Alston—Well, it is not. There is no obligation—

Senator LUNDY—Why not? Because you failed to legislate. There is a full pathway—

Senator Alston—And you cannot have it both ways. You cannot say, ‘We’ll hold them to their obligations and if we don’t think their obligations are tough enough we’ll’—

Senator LUNDY—No, but you cannot sit there with any credibility and say that this government has created a competitive regime with the way it has constructed a relationship with Telstra and the way it benefits from a whole series of grants and funding from your government. There are many examples. There are more examples applying to Telstra where it is not required to go through a competitive process than any other beneficiary of government grants.

Senator Alston—Let us take the 19.2 offering. Who else was in a position to offer that? Who else? Who controls the fixed network?

Senator LUNDY—Why don’t you take on notice to provide me with every grant that you have provided Telstra with on a competitive tendering basis and all the money that you have provided to Telstra, be it on a dollar-for-dollar basis or a direct grant, on a non-competitive basis and we will do the sums and see how much money you have taken from the profit from the sale of Telstra and pumped it straight back into that organisation? We will see who is all about providing a fair competitive environment.

Senator Alston—I see. So it is payback time, is it?

Senator LUNDY—Mr Chairman, I do not think this is going to go anywhere. Can I ask that the committee suspend for a very brief break. When we come back I will try not to get distracted by the minister’s provocations.

Senator Alston—Just so we can attempt closure, can I give you one stat out of that report you quoted to me from Dr Houghton. I think you chose to compare 1996 with 1998. He states:

In November 2000, there were 340,700 people employed in ICT jobs in Australia—an increase of 30 per cent since 1996.

That does not sound like—

Senator LUNDY—That was not quite the stat I quoted. I quoted a 1995 to 1999 statistic compared to a—

Senator Alston—Well, it just shows what you can do with numbers, doesn't it?

Senator LUNDY—Absolutely. I think my point was made.

Senator Alston—I like to see the more up-to-date number, you see.

Proceedings suspended from 8.29 p.m. to 8.43 p.m.

Senator Lundy—Mr Rimmer, let us talk about the ICT Centre of Excellence. I want to ask a series of questions about that. In particular, I want to note an answer to a question on notice that I asked last time around. It was about what I interpreted as being effectively double dipping as far as the funding announcement went. I asked a question about whether or not the \$62 million from the ARC was additional to the doubling of the ARC money as far as its contribution to the ICT Centre of Excellence went or whether or not it was inclusive. The answer came back that it was in fact inclusive. I just wanted to clarify this. The government made an announcement that the ICT Centre of Excellence, I think, is worth \$128 million—

Mr Rimmer—It is \$129.5 million.

Senator Lundy—It is \$129.5 million. There was also a doubling of ARC money, or that is the way it came out in the media. I just wanted you to clarify on the record here that the ARC component of the ICT Centre of Excellence—\$62.5 million—is in fact part of the moneys described as doubling of the ARC.

Mr Besgrove—Yes.

Senator Lundy—Are there any other initiatives that NOIE has carriage of with regard to the innovation statement besides the ICT Centre of Excellence?

Mr Rimmer—There is an increase to the information technology online project, as part of encouraging the uptake of electronic commerce and online technologies.

Mr Besgrove—They are the two major funding elements under the Backing Australia's Ability statement that NOIE has carriage of.

Senator Lundy—I will come to ITOL after we talk about this. In terms of the ICT Centre of Excellence, when does that \$129.5 million become available as far as the budget allocations go? Is some of it available in this financial year or in the coming financial year?

Mr Rimmer—The first tranche is available in 2001-02.

Senator Lundy—How much is the first tranche?

Dr Pelling—I do not actually have the year-by-year breakdown, but I can certainly get that to you. I think it is in the press release, anyway.

Senator Lundy—Is it funded over a three-year period?

Dr Pelling—Five years.

Senator Lundy—Are you able to at least give me some idea of the proportion of funding allocated, for example, in the next financial year?

Dr Pelling—I think it is about \$4 million.

Senator Lundy—I will just see if I have the figures somewhere.

Mr Besgrove—It is \$3 million in the first year.

Senator Lundy—Is this in the PBS?

Mr Besgrove—Yes.

Senator Lundy—Could you point me to the page, please?

Dr Pelling—Pages 68 and 69.

Senator Lundy—There it is. It has \$4.5 million there. Did you just say \$3 million?

Mr Rimmer—Yes. The total expenditure is \$4.5 million, of which \$3 million is an administrative appropriation and \$1.5 million is in the departmental appropriation.

Dr Pelling—They are departmental expenses.

Senator Lundy—When will it actually be set up, if \$3 million is an administrative allocation? So none of that \$4.5 million is going to the centre per se?

Mr Rimmer—No, the expectation is that the \$3 million will be going to the centre before the end of June 2002.

Mr Besgrove—The funding profile starts low and builds up over the period of time.

Senator Lundy—I can see that. The intention behind that is to give the centre time to become fully operational. It was our expectation in creating that funding profile that it would be very difficult to spend very much money at all in the first year. Given the scale of this particular initiative, we think it will take quite a while to get through the application and assessment process.

Mr Rimmer—It is also important to note that we are very conscious of the risk that, were you to simply advertise for 200 researchers at one time, you would simply suck all of the talent out of the existing talent pool, whereas the purpose of this centre is actually to grow the total pool of talent available by retaining some of the people who currently go overseas and attracting some of the people who are overseas back. The point of a phased introduction is to avoid what the universities express as concerns—namely, simply sucking the existing researchers out of other facilities.

Senator Lundy—I was going to ask you about that. In terms of the actual concept, can you provide me with some more detail about what you envisage this ICT Centre of Excellence to be in its corporate structure as much as anything else?

Mr Rimmer—We have either just released or are just about to release a major discussion paper.

Dr Pelling—I believe it will be released tomorrow.

Senator Lundy—I beg your pardon?

Dr Pelling—There is a discussion paper on the centre, which I believe is going to be released tomorrow.

Senator Lundy—Released publicly?

Dr Pelling—Yes.

Senator Lundy—The timing is bad as usual?

Dr Pelling—Basically, that paper is part of the public consultation process that we are having over the next month or so regarding the ICT Centre of Excellence which will lead into the formulation of the guidelines for applicants. It sets out basically the background to the centre and the rationale behind it. It raises a whole lot of issues and asks a series of questions of stakeholders, seeking their input into the details of the centre concept and the selection process.

Senator Lundy—I look forward to reading it. With respect to this budget line item here—I am just doing a quick adding up, and I am not very good at adding up so you will have to bear with me—across the four years in these budget papers we have got—you should be helping me here.

Mr Rimmer—\$43 million.

Senator Lundy—How much? It is not \$43 million.

Dr Pelling—My guess is \$42 million.

Senator Lundy—Okay. Add to that the \$62.5 million from the ARC—

Dr Pelling—The \$62.5 million is a five-year figure and the equivalent figure from the CTA portfolio is \$67 million, giving you \$129.5 million.

Senator Lundy—You anticipate my question well. So there is another figure in 2005-06?

Dr Pelling—Yes, which is not in the papers.

Senator Lundy—Does that mean it is not notionally allocated just because it is not in the budget papers?

Dr Pelling—It is on the public record that there will be five years of funding for this.

Mr Rimmer—The Backing Australia's Ability statement has the five years sketched out, including what will come direct from government and what will come from the ARC.

Senator Lundy—So what is the 2005-06 allocation under this item here?

Dr Pelling—It is \$20 million, I think.

Senator Lundy—\$20 million?

Dr Pelling—That sort of order, yes.

Senator Lundy—That explains all of that. In the context of an earlier discussion, Mr Rimmer—I do not know if you were privy to it—the department was telling me how it had the ability to reallocate unspent money or money that had been allocated to a program that had arguably achieved its objectives to be reallocated. What sort of guarantee exists with departmental funding to this particular initiative that it will actually stay with it and not, at some later point, be reallocated or drawn out or that objectives are stated to have been achieved, allowing it to be reallocated and so forth?

Mr Rimmer—We envisage that, at the end of the selection process, there will be a period of negotiation of a contract between the government and the agency and that that will include projections of the funding that the government will make available.

Senator Lundy—So those figures may in fact vary depending on the proposals that are pitched up to government? Is that a possibility?

Dr Pelling—No. The applications will be dealt with on the basis that that funding is going to be available to the centre.

Mr Rimmer—In the unlikely event that someone asks for less, yes.

Senator Lundy—Not necessarily that, but I mean in the likely event that the government does not think that the applications are worth what they are actually asking but could in fact be achieved with less. I know it is in the realms of the hypothetical, but I am just trying to get a feel for how flexible these figures are in supporting this initiative.

Mr Rimmer—The government has made a very specific—underlined three times—commitment to resources for this particular initiative, so we regard it as a firm figure.

Senator Lundy—So they have made a political commitment; but that could change if the politics changed, in other words. If the minister was here I would ask him that question.

Mr Rimmer—These things are always subject to annual appropriations, if nothing else; so yes.

Senator Lundy—In terms of the contribution from the Australian Research Council competitive grants area, does that mean that, in setting up this centre of excellence, participants or partners—I do not know how you would describe them—in the actual centre of excellence would then be subsequently eligible to apply for ARC grants? Or would the centre itself distribute the competitive grants under the banner of the ARC?

Dr Pelling—Do you mean will they have to apply to the ARC for the ARC's component?

Senator Lundy—Yes.

Dr Pelling—No, we do not expect that. We are currently in discussions with DETYA and, through them, the ARC about precisely how we manage the allocation of the ARC's component. But we expect the outcome of that to be that there will be a lump grant in each of the years.

Senator Lundy—To the centre?

Dr Pelling—Yes, which will be under the control of the centre's management, as opposed to the centre's people having to apply to the ARC for grants.

Senator Lundy—So when the government announced that they were doubling the ARC competitive grants program, they neglected to mention that a considerable proportion of that—in this case \$62.5 million—would not in fact be able to be applied for, rather that it would be allocated as a lump to the centre of excellence?

Dr Pelling—I do not have the press release here with me, but I think if you read the press release it actually does indicate that the money is coming—the press release back in January or so does indicate that the money is coming through the ARC. But having said that, yes the money is available. It will be allocated competitively through the centre's selection process, in which the ARC is participating, and the chairman of the ARC is on the panel.

Senator Lundy—That was my next question: how closely related are the ARC—for the purposes of awarding grants—and the management of the centre?

Dr Pelling—Clearly, as some of the funding will be appropriated to the ARC, the ARC will be involved in that process. The chairman of the ARC will be on the selection panel. We will have to work within the statute under which the ARC is now formed—which was recently passed by the parliament—to ensure that the centre process is consistent with the way the ARC is required under that act to allocate money. But these are administrative matters

which we just have to work through, and we do not anticipate any problems. In fact, DETYA has advised us that they do not see any problems, either.

Senator Lundy—Could you take on notice to provide to the committee—with the discussion paper coming out tomorrow, that may well cover some of it—any supplementary information or correspondence between yourselves, NOIE and DETYA about how those grants will be allocated under the centre of excellence?

Dr Pelling—Okay. I can say now that we have had a couple of meetings between staff of the agencies where we have raised the matter and had a very preliminary discussion. But the other thing to realise is that the ARC's component of the funding only comes in in the second year. The first year's funding is appropriated entirely through the CIT portfolio, so it does not become a major issue for a while. But, nevertheless, it is something that we will need to resolve in the context of signing the contract with the centre. So we will be looking at it over the next few months.

Senator Lundy—So 2002-03?

Dr Pelling—2002-03 is the first year that the ARC component of funding comes in. The year 1 component is all through our portfolio.

Senator Lundy—So what is the spread of the funding from the ARC across the other years?

Dr Pelling—In the out years it matches the CIT.

Senator LUNDY—Dollar for dollar, effectively?

Dr Pelling—Yes.

Senator LUNDY—So 8.8, 12, 17.7 and 20.

Dr Pelling—Yes.

Dr Watt—I just raise one issue. You mentioned the provision of correspondence between departments. Some of that may well come under the heading of policy advice and we would not be able to provide it.

Senator LUNDY—I presume that you will notify the committee accordingly in your response.

Dr Watt—I am sure we will.

Senator LUNDY—Thanks. If you are going to claim that sort of confidentiality—

Dr Watt—I think there is a genuine issue, though, if the correspondence between departments does infringe, or touch upon, or could be highly inclusive of policy advice.

Senator LUNDY—Yes. As long as you consult and abide by the Senate procedures, then I am happy.

Dr Watt—I would be surprised if we did not.

Senator LUNDY—In terms of the world-class centre of excellence, to what degree does the government envisage that funding or that tender process that you have described, Dr Pelling, as going to more than just one group, or one consortium? Do you see it as being just one funding package to one major initiative that is competitively pursued or is it something that can be distributed more in line with, for example, the incubator approach, albeit clustered?

Dr Pelling—Our approach to this is to fund a centre. Having said that—

Senator LUNDY—So by that do you mean physically co-located?

Dr Pelling—Not necessarily, although we do recognise that there will need to be a significant heart to the centre where there is a concentration of activity in the same location. But that does not necessarily mean that all of it has to be in the one location. It could be a centre which has more than one node, or essential node, and an outrider or something like that. There are various models. One of the issues, in fact, which we are seeking stakeholder comment on through this discussion paper is views on how they see that those sort of structural issues can possibly work. But having said that, we certainly consider that what we are doing here is establishing an institution—I use the word in inverted commas to a certain extent—but a significant concentration of new research and development activity which has its own management structure and is an organisation in its own right.

Mr Rimmer—So in that sense it is quite different from CRCs, which has sometimes loose confederations of researchers.

Senator LUNDY—I am still trying to grapple with the concept in that to create a centre of excellence it needs to have a focus. It talks about critical mass and clustering and the benefits of co-location and being a focal point for our expertise. What is it going to be built around, given identified technologies, technologies that are nominated by the applicants or perhaps by the government? Do you request for tenders, if you like? Do you see what I mean? I am trying to get an idea of how much direction will be given by government as to what sort of centre of excellence you are hoping to actually build. Just to maybe narrow down that question a little more: if you could answer the question in the context of comments earlier about what the strategic opportunities are for Australia with a view to building Australian capability.

Mr Rimmer—These issues are to a certain extent canvassed in the discussion paper on which we are seeking responses. But we envisage that it will be the centre proponents who will identify their view of what are the key research concentrations and that that will be one of the discriminating factors between bids. We envisage that they would propose more than one but not 100 different research foci.

Senator LUNDY—Okay. To what degree will Australianness be a factor in the government's considerations in the range of proposals that you will no doubt receive—presuming that you are going to be swamped, of course?

Mr Besgrove—Can you clarify what you mean by the question?

Senator LUNDY—Again, I am reflecting on comments that I made earlier about the advance networks projects in that there are obviously significant and important partnerships that can be created with international technology companies, multinational technology companies, but there are also a significant range of opportunities for emerging Australian technology companies which could attract a significant focus, if you like, or support by such an initiative. I am just trying to gauge whether or not that is part of the government's policy objective here—to actually grow Australian capability in terms of Australian-based technologies.

Mr Rimmer—It is certainly the government's objective to grow Australian capability in this area. I am not sure that Australianness is something that we are canvassing in the discussion paper, probably because we have envisaged that the sorts of bids that we expect will have a majority element of Australian existing research centres and so on. So we anticipate that there will be private sector partners in the bids, that some of those private sector partners will be multinational companies and not simply Australian companies, and

that would be to the benefit of the centre. But, in fact, until you had asked the question, it had never crossed my mind that there might not be a majority Australianness about it just because we envisage that Australian researchers—

Senator LUNDY—I am not suggesting a majority, or an arbitrary level of it, but whether or not it is a factor in weighting. Again, to try to put what I am asking into context, I continually look at the US and how they deliberately set parameters of procurement or industry support that are less defined by American-ness, for want of a better term, and more defined by size, because that actually predetermines the nature or locale of the business aim. The smaller the business, the more likely it is to be an indigenous business of a given region. The same sort of theory has applied to my favourite issue always—of IT outsourcing—and recent developments there, and it has been good to see the changes. But I guess I am seeing if some of those measures and some of those assumptions about smallness being related to Australianness are becoming a factor in some other funded initiatives and the government's programs to try to grow information and communication technology industries. Do you see what I am getting at?

Mr Rimmer—I understand what you mean. I think my response would be that this is very much a research centre of excellence, although it will have some development components and some industry linkages. We envisage that we will receive bids from Australian research institutions, and Australian research institutions tend to be large organisations in their own right.

Senator LUNDY—I am starting to get a better feel for it as to where it sits, too, in terms of its commercial nature compared to its institutional nature as well.

Mr Rimmer—No, it is meant to be a key focal point for research infrastructure in information and communications technologies for the country. We are taking into account the experience of other large and internationally significant research centres around the world in drawing up our proposals for it. So its central focus is research, all the way from fundamental research through to research and development, and obviously there is an expectation that there will be commercialisation spin-offs associated with it.

Senator LUNDY—I was going to ask some questions about that as well as to whether you envisage commercialisation pathways being built into the structure of the centre or whether you see that as sitting outside of this institution?

Mr Rimmer—I think we have had a bit of discussion about this internally. If I could say what our view is—

Senator LUNDY—If I am pre-empting the discussion paper, tell me—but, quite frankly, I do not think it is going to make too much difference if we talk about it tonight if the paper is being released tomorrow.

Dr Pelling—One of the issues that we canvass in the discussion paper—certainly commercialisation is going to be a key aspect of this and we will be looking to proponents to indicate to us the kinds of strategies they are going to be putting in place. Of course, at the end of the day it is going to depend on the outputs of the kinds of programs they run. This is a research centre. We would certainly be wanting to see, wherever appropriate, the centre pushing hard to make sure that its products get out into the market.

Senator LUNDY—Things like IP management would be critical?

Dr Pelling—Yes.

Senator LUNDY—Would the government be looking at presetting policies in relation to management of IP in these centres?

Dr Pelling—The question of what we will preset really will follow the consultation process and the generation of guidelines for applicants. There are a small number of general parameters, I guess, that come out of the government's policy statement but not a lot. We will be thinking generally on this and other issues as to whether there were things that we should be saying in the guidelines such as, 'These are compulsory. Don't bother applying unless you are prepared to live with this particular restriction on the process.' I suspect those would be fewer rather than more in number and that a fair degree of this will be left up to the proponents because that is where the expertise lies. The people out there are the people who know about research, how to do it, how to manage it and so on. We will be expecting a lot of that to come out of the process. There may well be some threshold questions that we will set in the guidelines about management structures, the commercialisation or the boundaries of the scope of ICT for defining the research projects or something like that.

Senator LUNDY—I can see why you would probably be spending some time on these issues. An obvious observation is that we are pretty good at the R&D side of things—or at least the research side—but we are not so good at the commercialisation. I would anticipate that that would be a reasonable emphasis through the whole process.

Mr Besgrove—If I could just make a couple of comments on the background to the initiative, it emerged last year during the development of the Backing Australia's Ability statement. The idea came from a number of different places more or less simultaneously. I refer you in particular to a report to the Prime Minister's Science, Engineering and Innovation Council of last November by a working group which was looking at the broad issue of research and development in the ICT sector. One of that working group's recommendations was that the government look at the establishment of one or more centres of this sort. I think it is fair to say that that working group's ideas had some influence in the development of the concept. Certainly that working group asserted the need for such a centre as a focal point for the sorts of things which Mr Rimmer and Dr Pelling have been talking about.

It was always envisaged that the centre would have relationships with a number of companies, both multinational and Australian, and I think it is fair to say that that would be expected to be part of the strategy of anybody who is bidding for this funding. I think it is also fair to say that the people who were developing the idea were fairly confident that government is not really in a position to predetermine which particular area of technology or, indeed, which particular site in Australia this centre should be focused on. In a sense we are looking to see what comes forward in terms of consortia that bid for this process.

If I can just draw an analogy, the process that NOIE is using in this instance is not dissimilar to the process that the department used with the BITS incubator program, where the government had a reasonably clear idea of what it wanted to do, circulated a discussion paper, and had some consultations to refine the concept before then calling for applications. In a sense the process here is broadly similar.

Senator LUNDY—But without spreading the risk as much?

Mr Besgrove—We do not think that it is easy to do the two at the same time.

Senator LUNDY—I appreciate that. In presenting that I think one of the strengths of the BITS program is the diversity of models that have actually been supported.

Mr Besgrove—Yes, I would certainly agree with that.

Senator Lundy—I will watch with interest. Chair, I do not know if it is appropriate, but I would like to try to preserve the opportunity, if you like, to place some questions on notice arising out of the report tabled tomorrow if that is okay. I do not know if I will, but I would like the opportunity.

CHAIR—That is okay.

Senator LUNDY—Mr Rimmer, in terms of Backing Australia's Ability and the innovation statement announced in January and then in the recent budget, the analysis shows that, with the R&D premium applying, there is actually a decline in the net outlays of the government to R&D support. Is this something that NOIE concerns itself with or provides comment, policy advice or input to the government's considerations on? I am not asking what the advice was; I am just trying to gauge whether NOIE is directly involved in how the government sets its policies on R&D support programs like R&D Start and the R&D Premium.

Mr Rimmer—We have a very active role in discussions about the overall policy framework for research and development and in centres for research and development as well as the specific things with which we are concerned.

Senator LUNDY—My understanding is that, as far as the overall commitment to R&D goes through the Start program, there is only a net boost of a mere \$5 million over the out years, despite the claims of government that R&D has been supported significantly. I guess I am just trying to gauge your response to that and whether or not you have done that analysis of the net impact on bottom line R&D support by the government as a result of the changes announced in the Backing Australia's Ability statement in the budget allocations.

Mr Rimmer—I do not think we can comment on the government's policy decisions. To my knowledge, we have not done that sort of analysis. I think that the estimates on which it is based are somewhat based on conjecture about the impact of legislative changes on the R&D concessions. We regard those as projections rather than predictions.

Senator LUNDY—Will you be doing an analysis?

Mr Rimmer—I think what we are focused on is discussions to ensure that the implementation of the program as it impacts on the innovation environment for information communications technologies companies does not have unanticipated consequences, but these are essentially policy matters for the industry department and for Treasury.

Senator LUNDY—Can I ask the question in relation to the impact on the ICT? Do you do an analysis of the research and development support emanating from industry on the ICT sector?

Mr Rimmer—As you would be aware, after the innovation statement various individual groups have identified a range of issues for discussion about just what the decision will mean and just exactly how it will be implemented, and we are actively involved in discussion with them and with the relevant departments to make sure that there is clear communication about—

Senator LUNDY—And they are concerned that it will mean a decline in the support to R&D in the ICT sector, aren't they?

Mr Rimmer—No, I do not think that is the focus of the concern. I think the focus of concern was more whether there would be unanticipated consequences from the legislative definition that might, for instance, define software research and development out of R&D altogether.

Senator LUNDY—But that is what I mean, and that could result in a reduced commitment or reduced availability of R&D grants to that sector.

Mr Rimmer—We are confident that that issue is now well understood by all of the participants and you will have to wait and see what final decision government makes about it.

Senator LUNDY—So you are waiting on a policy decision about that?

Mr Besgrove—I simply reiterate Mr Rimmer's statement: we have been actively involved in the discussion, but I think it is quite inappropriate for us to comment further.

Senator LUNDY—I am not trying to ask you to comment on the policy. I am trying to ascertain from you whether or not you now, in terms of your consultation with industry, have reached a point where you understand what their issue is, you understand what the problem is and now you are awaiting, effectively, a policy decision—minister, perfect time—by government as to are they in or out. Minister, we are just talking about policy and I was desperately trying to avoid asking—

Senator Alston—I was wondering when you would get onto policy.

Senator LUNDY—I was asking the officers here and going to great pains to try not to ask them policy questions. It is about the impact the changes to the R&D support under the Backing Australia's Abilities statement have on certain sectors of ICT and the concerns expressed from that sector that some areas will become ineligible by virtue of the definition of R&D grants. The question is: does the government have a policy decision made as yet or a policy developed on whether or not you will ensure full access to the R&D program by the ICT sector, specifically software, or will you narrow the definition?

Senator Alston—As you are probably aware, there is a proposed amendment to change the 'or' which separates innovation from technical risk to 'and'. That is a matter that some people have suggested might have an unintended consequence and the implications of that have been worked through with various organisations.

Senator LUNDY—I think the question was: when are you likely to make that decision?

Senator Alston—I am sure by the time the amendment comes before the parliament.

Senator LUNDY—When is that?

Senator Alston—I have no idea.

Senator LUNDY—I have not read the bills list lately. I am genuine here: is it coming up in the next two weeks or what?

Senator Alston—Yes, I think it probably is. I think it may need to take effect from 1 July.

Senator LUNDY—On 30—

Senator Alston—I think that you would expect the tax changes to start to commence from the beginning of the financial year. It does not mean that you have to have the legislation through by that date, but it would be highly desirable. I imagine that it is going to be dealt with in the coming fortnight.

Senator LUNDY—Has the government done the costings as to what implications there are for the budget, whether that definition is amended or not?

Senator Alston—I did read some official giving evidence to a parliamentary inquiry saying that the financial implications would be minimal.

Senator LUNDY—Did they name a figure?

Senator Alston—Minimal for minimal.

Senator LUNDY—It is all relative, Minister.

Senator Alston—Yes, well-

Senator LUNDY—I am just asking genuine questions now. Is there a dollar figure identified?

Senator Alston—No.

Senator LUNDY—I'm not going to go to that *Hansard* and find that there was a really big dollar figure—

Senator Alston—No, no.

Senator LUNDY—that was really interesting that you chose not to share with me.

Senator Alston—No, there was no number that was provided.

Senator LUNDY—I am sure they are all waiting with serious interest as to the government's decision in that regard. ITOL grants: can you tell me a little bit of history of NOIE's involvement with the minister and the ITOL program, given it is originally funded, is it, through T1 or T2?

Mr Besgrove—No. ITOL was originally part of the technology diffusion program. It was formally administered through ISR and came out of the Investing for Growth statement in December 1997.

Senator LUNDY—That is right.

Mr Besgrove—As far as I am aware, it has been administered by NOIE for most of that time, certainly for at least three of the four years that it has been in operation. With ITOL, normally the grants are provided through funding rounds, normally one or two each year. Mr Cross might provide a bit more detail, but I think we have just done round 5.

Mr Cross—Yes, round 5 was completed and announced in March of this year.

Senator LUNDY—Is that on NOIE's web page?

Mr Cross—Yes, I believe so. It was announced in March of this year that there would be 16 projects funded, receiving a total of \$1.16 million in grant funding.

Senator LUNDY—What is the program worth all up in terms of annual allocations? Do you have the figures there of the allocations to date and the forward estimates?

Mr Cross—There has been a series of five funding rounds totalling \$5.5 million over the life of the program to date, with 70 collaborative projects funded. Under Backing Australia's Abilities, the life of the program has been extended for five years with \$13 million flowing into the program.

Senator LUNDY—From this next financial year?

Mr Cross—From the next financial year onwards.

Mr Rimmer—The original program runs until next financial year. That has been increased for next financial year and \$3 million for the following years.

Senator LUNDY—Can you take me to that?

Mr Rimmer—Page 68.

Senator LUNDY—Okay, you have called it something else.

Mr Rimmer—Yes.

Senator LUNDY—That is what confuses you. You change the name of something and it throws me completely. Is it still called ITOL or is it now known as Innovation Access—

Mr Rimmer—Yes. You can see the first explanation sentence states:

As part of the Innovation Access Programme, the Government will extend the Information Technology Online programme ...

Senator LUNDY—So what else does the Innovation Access Program involve, if not just the ITOL program?

Mr Besgrove—It involves a number or series of other grants programs which were administered by the Industry, Science and Resources portfolio.

Mr Rimmer—So this is just the ITOL program component of the Innovation Access Program.

Senator LUNDY—Okay, and there is no point at all asking about the other programs?

Mr Besgrove—No, there is not.

Mr Rimmer—There is a very extensive table at the back of Backing Australia's Abilities which lists all of these numbers.

Senator LUNDY—I will have a close look at that, thank you. I will look forward to that. You mention the figure 13 million, I am presuming, because it extends the fifth year?

Mr Rimmer—Yes.

Senator LUNDY—See, I am learning. There is another 3 million there. Just going to the actual features of the ITOL program, I cannot believe I have not asked more questions about this previously.

Mr Rimmer—I think this is the first time we have been talking about it before 11 o'clock at night.

Senator LUNDY—So it is a reflection of my memory. Yes, more than likely. In fact, we should be grateful that we started before dinner this time, shouldn't we? Well, you did not, but the others at least did. Again, this is a question about evaluation. Can you describe the evaluation process for the funded projects under the ITOL program?

Mr Besgrove—I will ask Mr Cross to comment in more detail, but the normal process is that we advertise for applications under this program. We routinely get between about 60 and 100 applications per round. They go through an assessment process which involves officers of Mr Cross' branch, and we also retain an independent consultant who, if you like—

Senator LUNDY—Who is that?

Mr Besgrove—We will have to take that on notice. I'm sorry, I do not have that information.

Senator LUNDY—Surely you know who you consult with?

Mr Besgrove—I do not have the name of the consultant with me this evening.

Senator LUNDY—Do you, Mr Cross?

Mr Cross—Senator, I have just recently joined NOIE in the last few weeks and I was not there for the last funding round, so I am not familiar with the name of the consultant.

Senator LUNDY—You are excused.

Mr Cross—Thank you. They go through an assessment process separately and then they compare notes and develop a short list, which is basically assessed against the merit criteria. Each of those applicants is then visited by the assessors, who then come up with a reduced short list of those that look to be the most meritorious against the selection criteria, and that is then put into the form of a series of recommendations to the delegate, which in the case of this program is Mr Cross.

Senator LUNDY—So that assessment team involves the consultant?

Mr Besgrove—Yes.

Senator LUNDY—Anyone else?

Mr Besgrove—There are normally two people from within NOIE who also are involved in the assessment. The purpose in having the consultant involved is to have some independent perspective and also someone who is from the commercial sector.

Senator LUNDY—Can you just see if you can get someone to find out who that consultant is?

Mr Besgrove—I am happy to take that on notice. I apologise that we did not have that information.

Senator LUNDY—I thought you might be able to find out tonight while I am here.

Mr Besgrove—I am not sure that that will be feasible given the hour.

Senator LUNDY—If there is someone in the room who knows the name of the consultant that assesses the ITOL projects, please step forward.

Mr Besgrove—I do not believe there is.

Senator LUNDY—Well, now I am just plain curious. Could you take it on notice to provide me with the full terms and conditions of their contract, including the duration, how long they have been working on the project, and their remuneration for their efforts?

Mr Besgrove—Certainly.

Senator LUNDY—And their qualifications for the job? Are the two accompanying NOIE officers on the assessment team part of your unit, Mr Cross?

Mr Cross—Yes, they work within my branch.

Senator LUNDY—Right. That team comes back to you with recommendations that are constructed on the basis of comparing them to the assessment criteria?

Mr Cross—Yes, they do a ranking based on the criteria.

Senator LUNDY—Do you get a list ranked from one to however many you can afford under that particular round?

Mr Cross—The round last year was \$1.1 million. It is quite a competitive program. I understand the success rate for applicants is around the 20 per cent mark.

Senator LUNDY—Do you have the criteria against which they are assessed that you could provide to the committee?

Mr Cross—Yes, we could provide those criteria to you. I could speak broadly to them now if you wish, but we could certainly provide the criteria.

Senator LUNDY—Can you just give me a brief rundown on what the major criteria are for getting funding under ITOL?

Mr Cross—Broadly, ITOL is designed to fund programs in the business community, particularly SMEs, which facilitate business e-commerce. It has a broad policy objective and it has funded a wide range of projects. The selection criteria include:

The project addresses a clear, specific and strategic need of Australian industry

The project will help improve industry awareness and adoption of particular online business to business solutions or technologies

The project will result in increased competitiveness of identifiable communities of small and medium enterprises

I think from those criteria you can see the basic thrust of the program.

Senator LUNDY—I have had a look at some of the projects that have been funded as well which give some form to it. I would like to evoke a couple of examples. One project that was funded to the tune of \$110,000 in round 4 was the SuperEC Program. I notice, Mr Rimmer, this was one that you mentioned in your recent presentation at the Press Club. The web site lists the round 4 projects overview and states:

The SuperEC Program is an initiative of the superannuation industry that aims to deliver industry-wide cost reductions and efficiency gains by promoting industry message standards for electronic commerce. This program will create the standards, relationships and processes for the automated exchange of superannuation information across all industry stakeholders.

That is reasonably self-explanatory. It goes on to say that there are three industry bodies, 12 super fund administrators, three intermediaries and a government body all as partners. Rather than going into the nitty-gritty of that program, I have a general question about the process you go through to assess whether or not you are funding programs that are competing with either commercial solutions or commercial initiatives in that same kind of space, given there is a proliferation of other attempts at creating electronic information hubs for industry sectors.

Mr Besgrove—I think in some instances, with some of the initiatives that have been funded under ITOL, it is really a question of when they were funded. At the time they were funded there may not have been similar initiatives in other parts of the market. In subsequent years sometimes similar things have come forward. Clearly, one of the things that we try to avoid as much as we possibly can is duplicating anything that is already being provided by the market. In terms of making judgments about what to fund and what not to fund, there is a range of things that we would be taking on board. Mr Cross has indicated some of those in the criteria. The extent to which we will have a major catalytic impact with what is basically a very small amount of funding is clearly one of the things which influences our decisions.

Senator LUNDY—Going back to my earlier question about evaluation, you initiated your response to that by talking about assessment. Coming now to how you actually evaluate these projects, how do you measure catalytic impact?

Mr Besgrove—There is a series of things that you look at, and it will be different for different projects. Some of the things which ITOL has funded are regionally based initiatives looking to get groups of small companies in, for example, regions of Western Australia and New South Wales online. You can count the number of companies that you have been able to facilitate into an electronic trading environment, so that is relatively simple. You can also count the scale of the e-commerce outcomes that flow from that.

In the case of some of the other things which ITOL has funded which, if you like, are the larger scale and more ambitious projects, we clearly have an understanding of the potential savings coming out of those. But I have to acknowledge that some of those take some years to actually come to fruition. So we can point to quite substantial potential savings in several of the industries that we are working with, but in several cases it is work in progress. But it will basically be somewhat different for each of the many different kinds of projects that we have funded. Not all of them have been successful. One or two of them have not proceeded.

Senator LUNDY—A number of the projects funded seem to be almost creating products that subsequently claim to be able to assist the SMEs. Do you actually do a product analysis?

Mr Besgrove—I would have to take that question on notice. I do not know the answer to that question.

Senator LUNDY—By way of examples—I think it is round 4—project titles include SME-commerce and preparing SMEs for e-commerce. Consortia members are Corrigan and Associates, Gilbert and Tobin, and XT3 Commercial Internet Solutions. So obviously it is a very commercial venture looking at providing a service.

Mr Besgrove—I am not familiar with them.

Senator LUNDY—No. I am just throwing that one out there to try to get a feel for how you would evaluate the success or otherwise of that particular initiative. Just from the quick look I had, the average funding seems to be around \$90,000, \$95,000. Does that sound right?

Mr Besgrove—I think the average grant over the life of the program has been of the order of \$80,000 to \$90,000.

Senator LUNDY—Yes, I am just very interested in what sort of formality you apply to evaluating the success of the projects and if the sustainability of these projects is a key criterion upon which you assess it.

Mr Besgrove—I think, inevitably, that is the case. The funding that we provide is relatively small compared to the scale of many of these projects. All the ITOL funding can ever be is catalytic. If there is not significant buy-in from the stakeholders involved, both in terms of cash and in kind, then it is very difficult for these projects to go forward and to achieve significant outcomes. So the emphasis has to be on sustainability and one of the things which we are looking for is serious commitment over the medium term from the parties involved.

Mr Cross—The grants are available for 50 per cent of the project costs. So you are looking for a contribution from the consortium that has come forward of either cash or in-kind to ensure the sustainability and commitment of those parties to it.

Senator LUNDY—Okay. Are you able to provide the committee with details about the ITOL projects which have been funded and are still ongoing? I suppose that is asking the question in the positive. The other question is: have you got a list of ITOL funded projects that have, in fact, subsequently failed—for whatever reason?

Mr Besgrove—We could certainly make that information available.

Mr Rimmer—It is probably important to make a qualification that sometimes the projects are intended to be time limited.

Senator LUNDY—Sure. No, I appreciate that and I do not want to imply, too, that the failure of some of those projects implies a failure of the program, because I do not believe that that is the case necessarily. What I am concerned about is process and that they have been appropriately evaluated and assessed. Notwithstanding that, have you had any examples

where there have been active breaches of the terms and conditions of the ITOL funding? Have you had any problem cases or issues with people who have failed to fulfil their commitments?

Mr Besgrove—We will have to take that on notice. I am not personally aware of any. My understanding is that if there have been, they have been quite rare.

Senator LUNDY—Okay.

Mr Besgrove—Certainly, they have not been brought to my attention in the six months that I have been responsible.

Senator LUNDY—I have not heard of any specific cases. So it is a general question.

Mr Rimmer—I should say that there is a certain amount of peer review and assessment which provides some further controls on this, because we organise regular meetings where programs which have been funded actually have to present what they are doing to other people who are in the ITOL program, largely because we want to encourage the dissemination of learning between projects so that there are actually synergies and people are not reinventing the wheel. But the secondary consequence of that is that there is quite strong pressure on people to actually demonstrate that they are actually doing something—to their peers and not just to the government.

Senator LUNDY—Have you ever been to one of those briefings?

Senator Alston—Sorry, what was that?

Senator LUNDY—Do not worry.

Senator Alston—I have handed out a few of the—

Senator LUNDY—Do not worry, go back to your reading.

Mr Rimmer—I went to one of these in Sydney recently and that is why I can speak so confidently about the pressure which is on the projects. They are a pretty critical audience for each other, and we believe that it is an exceptionally good program.

Senator LUNDY—Okay. You mentioned that a series of recommendations get presented to Mr Cross. What happens at that point? Are you the delegate who can actually make the funding decision or do you subsequently make recommendations to Mr Rimmer or the minister's office.

Mr Besgrove—Mr Cross is the delegate.

Senator LUNDY—Right. So you have to make the decisions?

Mr Cross—Yes.

Senator LUNDY—What is the process of appeal if applicants are unhappy with your decision?

Mr Besgrove—I think that there would be in the first instance an appeal within NOIE. We have not actually had any.

Senator LUNDY—No, but you could have one day. Again, it is a process question.

Mr Besgrove—Yes. It would be subject to the normal processes of appeal, consistent with other government grant programs.

Senator LUNDY—That does not help me too much, I am afraid. So what? In the period of the announcement? A two-week period post announcement?

Mr Besgrove—I am sorry, I would have to take that on notice. I do not have that information at my fingertips.

Senator LUNDY—Okay. How do you insure or protect yourselves against potential conflicts of interest and manage probity in this selection process?

Mr Besgrove—Within the last 12 months we have actually had the program assessed by a probity auditor. Generally speaking, the report provided by that auditor has been broadly positive. They have made some recommendations to enhance the administration of the program but they are predominantly at the margin, I would have to say. We are instituting those changes in the context of the next round of ITOL grants. But broadly speaking, the auditor endorsed the processes and structures that we had in place.

Senator LUNDY—Did they produce a report for you—a written report?

Mr Besgrove—Yes, they did.

Senator LUNDY—Are you able to provide that to the committee?

Mr Besgrove—I believe so.

Senator LUNDY—Thanks. The Office of Government Online: Mr Rimmer, when we opened discussions this evening you spoke about supply and demand side issues and also the role of government. I note with interest that somewhere in one of the budget papers it talked about your Government Online benchmarks to be achieved—certain requirements of Government Online—by the end of 2001. It is in the portfolio budget statement, page 67:

As a major user of new technologies, the Government has undertaken to deliver all suitable services electronically on the Internet by 2001 to provide better services to all Australians and to improve its own business practices.

I have a very general question. How is that going?

Mr Field—The evidence we have through that specific goal in terms of all appropriate services on the Internet by 2001 is that that was a goal set in the investing for growth environment. The evidence we have from collecting information from agencies is that over 90 per cent of agencies are saying we are going to meet that commitment.

Senator LUNDY—I think it was an Audit Office report that had, I suppose, a dubious assessment of the various capabilities of the various agencies to meet those outcomes. Has this situation changed significantly, or has the definition become a bit looser?

Mr Field—The definition is the same. I think the situation basically has changed. From memory, that report was in 1999. The government released a strategy—Government Online Strategy—in April 2000, and since then there has been a strong momentum and activity by agencies and ourselves towards that goal.

Senator LUNDY—I know NOIE has a coordinating role in that. Is there any specific budget allocation you have provided to NOIE to actually facilitate that or to assist agencies directly?

Mr Field—It is agency driven. And agencies, as part of their priorities and budget processes, gain funds to implement their particular initiatives.

Senator LUNDY—That is what I thought. You mentioned 90 per cent. Do you have a current assessment about the relative development of each agency and department that you are monitoring and tracking that you could provide to the committee?

Mr Field—Yes. We collect information from agencies. That is always in a reasonable summary form—140 Commonwealth agencies—and we are working through the latest round

of that at the moment. We will soon, I think, have that in a position to publish some of that information, if you wanted to look at particular agencies. Agencies have also put their online action plans, as part of the government's requirements to actually publish their plans for what they are doing, and all those are available through our web site.

Senator LUNDY—So that is where I would find all that detailed information?

Mr Field—Yes, for each agency. There are some 100 or so plans.

Mr Rimmer—I think it is true to say that the Australian government has been one of the governments in the world which has established the most challenging targets in terms of actually driving beyond rhetoric to have a regular reporting and monitoring framework and pushing agencies quite strongly to move online. Inevitably, the way in which agencies are able to do that depends on the particular programs that they operate and the particular IT systems that they already have in place. So some agencies find it relatively straightforward to do, and with other agencies it actually requires very considerable reworking of some of their activities. I think we are very pleased with the progress that has been made. But it is also true to say that we are continuing to push very hard for what comes next.

Senator LUNDY—Has NOIE involved itself with the overall strategies to deliver web-based services and the sort of transaction cost issues associated with those initiatives? Do you know what I mean? How involved do you get with the agency strategies in going online? Do you talk to them about things like transaction costs and achieving efficiencies or what they perceive as savings?

Mr Field—Generally, agencies—particularly the larger agencies—know their business, and they have obviously very significant infrastructure around this. Where we get involved, say, with those agencies is assisting them in specific areas. The ATO, for example, as part of its online business activity statement, et cetera, efforts require authentication of public key infrastructure assistance, and we are engaged with them in helping them roll all that out, for example.

Senator LUNDY—One of the issues that came up previously was the way in which departments and agencies shared database information. The particular example was the DEWRSB usage of what was the basis of a database emanating from tax, modified for the Australian Business Register.

Mr Field—Yes.

Senator LUNDY—What rules exist to prevent agencies from sharing databases in that way—surrounding issues of privacy and probity and appropriate legislative protection of that information—given that a considerable amount of work could perhaps be avoided if that sharing occurred openly?

Mr Field—The privacy legislation, as I am sure you are aware, prohibits the sharing of information.

Senator LUNDY—That is the Privacy Act 1998?

Mr Field—Yes. The principles there are quite specific. There is also the data matching legislation, which again specifies—

Senator LUNDY—So both of those are directly applicable in considering these issues?

Mr Field—Yes.

Senator LUNDY—Can you tell me what that actually prevents? Does that specifically prevent one agency from providing perhaps a database that the second agency subsequently enhances?

Mr Field—In the case, for example, of the Australian Business Register, I think the bulk of that is effectively in the public domain, and it therefore can be used as a common reference point. It is when you get into deeper information about individuals in particular that it moves up against the Privacy Act, personal information and the data matching. The key principles there are basically, I think, in terms of information only being used for the reason it was collected and, secondly, issues around data aggregation, which are the problems regarding matching profiles, et cetera. If over time we find that there is value to customers through some linkages, that will be part, if you like, of the ongoing debate in terms of providing, for instance, choice, how that relates to privacy, and the use of information.

Mr Rimmer—There are some new issues for government that we have to look at, although we do not have an answer to it yet. In terms of information which is regarded as being in the public domain but which, if put in the public domain via electronic networks, provides a qualitative difference to people's privacy—court records are a good example of that; and there has been some extensive public discussion about the fact that, although a lot of records are, in fact, required to be available for access by the public in the existing court rules, to go from that to having all exhibits in criminal trials available on the Internet is quite a dramatic increase in the impact on people's privacy. So this gets back to issues we were discussing earlier; that sometimes the availability of a new technology actually changes an existing policy, and that is something that we are going to have to consider.

Senator LUNDY—And that is something you have on your agenda at the moment, I suppose?

Mr Rimmer—Yes.

Senator LUNDY—Was that CrimeNet—the one you are talking about? I cannot remember the name. I remember the issue.

Mr Rimmer—I was not referring to the specific Australian examples of it but to the more recent global discussions about whether autopsy photographs should be available on the Internet, for instance.

Senator LUNDY—To use a gory example. We will watch with interest as those issues develop. Are you planning on releasing a discussion paper or some sort of document to address the public discussion?

Mr Rimmer—In the first instance, where our plan is to understand the issue well enough ourselves, it is—

Mr Field—There is some work that the Privacy Commissioner has been doing regarding the use of public key infrastructure for individuals, which touches on some of these issues regarding choice in terms of the use of your information and choice in terms of whether you have a shared identity or a common identity in certain areas. That paper is about to be released by the Privacy Commissioner as a basis for discussion.

Senator Lundy—I look forward to that. I only have a couple more questions for NOIE. Last time I asked some questions about the Melbourne office of NOIE, and I thank you for the answers. I understand that the NOIE office is going to be co-located with Information City Victoria in Collins Street.

Mr Rimmer—Information City is one of the tenants. A greater attractiveness to us was the Victorian government's innovation centre.

Senator Lundy—That is what I am thinking of. Is that in Collins Street?

Mr Rimmer—Yes.

Senator Lundy—Who else is in that precinct? My understanding is that there are quite a few interesting tenants.

Mr Rimmer—There is a private marketing and Internet hosting company called SWISH. There is also the office of the Public Service and Merit Protection Commissioner for Victoria and the de Bono Foundation's innovation centre. There are a couple of other firms, but I cannot recall them.

Senator Lundy—So it is like an IT place?

Mr Rimmer—The intention is that it is an innovation hub, yes, with a particular focus on information and communication technologies.

Senator Lundy—Is that where you will be permanently based?

Mr Rimmer—Yes. We expect to be in by the end of July.

Senator Lundy—Where are you based at the moment?

Mr Rimmer—For several years NOIE has subcontracted space from the industry department.

Senator Lundy—Here in Canberra?

Mr Rimmer—No, in Collins Street in Melbourne. We have had staff in Melbourne for three years. They are currently in a building further up Collins Street.

Senator Lundy—Yes, I think I got details about that. And you will not be returning there once you move?

Mr Rimmer—No. In fact, the industry department wants to use the space. So it is keen to see us go.

Senator Lundy—And you still have the lease in Sydney?

Mr Rimmer—No, the lease came up for renegotiation. We had a relatively advantageous lease arrangement in the first instance.

Senator Lundy—With a very glamorous view.

Mr Rimmer—The price which the landlord suggested would be necessary for renegotiation was a very large increase. So we are relocating down towards the Surrey Hills area in Elizabeth Street.

Senator Lundy—Have you secured that lease yet?

Mr Rimmer—Yes. We are subcontracting the space from another agency in the portfolio.

Senator Lundy—Which one?

Mr Rimmer—From the Australia Council. It has recently occupied a new building near Central Station which has the advantage of being on the railway to the airport.

Senator Lundy—How does that compare in terms of cost to the previous lease before they tried to up the price?

Mr Rimmer—It is less than the previous lease, and I think it is very dramatically less than the price we would have paid had we stayed at Australia Square.

Senator Lundy—What about the Canberra presence of NOIE?

Mr Rimmer—At the moment we are in two offices—one in Centenary House and the other in NTAA House. I am never sure whether it is NTAA or NTIA. There are some disadvantages at being in two buildings, although the buildings abut at the rear. So it is a workable arrangement.

Senator Lundy—Could you provide a consolidation of these new leases that you have engaged in in a table on notice? That would be useful. I think that is all I have for NOIE. Thank you very much.

CHAIR—Thank you.

[10.06 p.m.]

Senator Lundy—I should thank the officers for being so patient. I do not have a lot of questions in the corporate services area, but I did want to follow up the Group 5 IT outsourcing and also the implications for the market testing and contracting out of corporate services within the department. Perhaps we should start with that. Can someone give me a status report on what is happening with market testing and contracting out? I understand you have a contractor in place now for corporate services in the department. Who is it? What is the contract worth? What are they doing?

Mr Blewitt—We went out to the marketplace about a year ago and tested most of our corporate services—financial services, excluding budget; property offices; and human resources. As a result of that, we chose to outsource only human resources at this stage. That was on the basis of a good quality bid and, importantly, a value for money exercise. We are currently in the middle of negotiations with the company, which is Empower. We expect to conclude those negotiations by the end of June, when we will announce a contract.

Senator Lundy—Say that again. You are currently in negotiation.

Mr Blewitt—We are in contract negotiations with Empower, which is the preferred tenderer. We expect those negotiations to conclude by the end of June.

Senator Lundy—When you say you are in negotiation with them, have they been awarded the contract or are they at this stage the preferred tenderer, you are now finalising the details and it is contingent on negotiations?

Mr Blewitt—We have spent a lot of time sorting out the actual service level agreement, which has taken us quite a while in negotiation with them. Their status could probably be best described as preferred tenderer at this stage. So we are still in that stage of negotiation.

Senator Lundy—So you have not finalised the cost or anything?

Mr Blewitt—No, we have not.

Senator Lundy—Within that process, were you in a position to establish a firm business case as to why you would outsource your human resources?

Mr Blewitt—Yes, we were.

Senator Lundy—In the preparation of that business case, to what extent did you go to establish a cost baseline prior to initiating the market test?

Mr Blewitt—We looked at benchmarks as best we could, both from what was available and also from various exercises we had been involved in ourselves. We got some consulting

advice to assist us with that. We then spent a lot of effort in terms of assessing what we had internally ourselves in terms of skill, value and capability. Also, we went for an expression of interest in the first instance before we went to tender, which allowed us to assess pretty clearly the maturity of the marketplace, for example, and the capability that they were offering us in an open market situation.

Senator LUNDY—What relationship does what you have done within the department and with mPower have with the requirements of the market testing and contracting out program as announced last year through the department of finance, now managed by OASACS? Did you initiate your process as a result of that policy?

Mr Blewitt—We did initially, yes.

Senator LUNDY—That is what I thought. What involvement have you had with OASITO, now OASACS, in your efforts?

Mr Blewitt—We worked closely with them throughout the process and used their tender model, for example, to accept bids. Secondly, we used some of their modelling to evaluate the bids.

Senator LUNDY—With regard to that particular model, as with the IT outsourcing program, the MTACO prevented in-house bids. I do not know if you will answer this. If they had not prevented in-house bids, would the department have been in a position to furnish an in-house bid as part of the process?

Mr Blewitt—I think the department would have been reluctant to do that on the basis of the difficulty we had in attracting the sorts of skills we needed to actually drive the sort of human resource process we wanted. So it suited us at the time. I think one of the reasons we have actually outsourced is to attract the sort of capability that you need to build the sort of work force that the department requires.

Senator LUNDY—When you say you have worked closely with OASITO—was it OASITO that you were working with?

Mr Blewitt—It was, yes.

Senator LUNDY—I will just use ‘OASITO’, because they do not know how to pronounce their new name, either. In working with OASITO, in them providing guidance on the nature of the contracts and the process, did you have a formal arrangement or liaison-consultation process with them, like a steering committee, or was it very much that they provided you with advice and then it was up to you as a department to take it or leave it and progress the whole exercise as you thought best?

Mr Blewitt—Essentially from day one we had quite a close relationship with them because we were looking for some advice and guidance. As the process moved on and we got to understand that, and also looked at some other models that were in use, we tended to keep them informed, but certainly there was not a close relationship to the extent that they were involved, for example. We did get advice, we did talk to them and we did keep them up to date with what was happening, but we did not follow entirely all the processes they suggested.

Senator LUNDY—I guess I am drawing the obvious comparison with the way the IT outsourcing was conducted, where there was a significant amount of formal control over the process by OASITO. I guess I am looking for confirmation that that was not the case with MTACO.

Mr Blewitt—It certainly was not the case. We established our own high-level evaluation committee to run the thing. As I said, importantly we kept in touch with OASITO, but certainly we ran our own business case, we did our own tenders and we did the evaluation in our own right.

Senator LUNDY—In establishing that business case, what were the criteria that led you to proceeding with issuing a request for tender?

Mr Blewitt—I think effectively we looked at what we had, and we provided the information in terms of the sort of service we provide now and the expectations on the issues we wanted to address, particularly in terms of strategic issues and HR. We also would have had to have replaced our own internal HR system, which was quite a cost confronting us, so getting an information system that related to human resources was another critical aspect of the case. This was one of the attractions as well, that a new tenderer came forward with a fully-fledged system which we could just adopt.

Senator LUNDY—So service, strategic, HR and replacing the systems. Appreciating the broad definitions of what constitutes value for money, can you tell me whether or not the department actually achieved a net saving in going to an outsourced solution for human resources?

Mr Blewitt—We did achieve a small saving. I think the value for money came about more with the sort of capability we were buying.

Senator LUNDY—I should rephrase that. I should say ‘a cost reduction’. Did you achieve a cost reduction?

Mr Blewitt—Yes, we did, but it was quite marginal.

Senator LUNDY—What is ‘marginal’?

Mr Blewitt—Probably five per cent.

Senator LUNDY—And in terms of a cost saving—this is where I get completely pedantic about these terms—is there any distinction between what you consider a cost reduction and a potential saving to the department?

Mr Blewitt—I suppose the emphasis has been more on getting something that was around about the same price but certainly something that provided us with much better service. For example, the new system would have cost us something of the order of a million dollars to put in ourselves. That was an important decision we had to make in-house, if we were to maintain it. So that was an important ingredient in any assessment. The other issues had to do with just the capability they were offering—how we could access that—and, importantly, how we could actually work over time—we suspect over the three-year period of the potential contract—to produce savings internally as well, in terms of both the transactions and the way they do business, with the delivery of our services, such as training and development and a whole lot of payroll systems. We would expect to get savings, and the department would expect to share those with the contractor.

Senator LUNDY—I have a question about that million dollars worth of equipment. Because what you had was on the way out—I don’t know if I can—

Mr Blewitt—That is exactly the case, yes.

Senator LUNDY—Okay. That is a good description? Was part of this contract effectively an asset transfer of that old equipment?

Mr Blewitt—No.

Senator LUNDY—So you still have all that old equipment?

Mr Blewitt—We are still using that old equipment. In fact, we will use that in parallel for three months or so. But it is effectively obsolete.

Senator LUNDY—And then when it becomes obsolete, is it still an asset of the department?

Mr Blewitt—We do not believe it is worth anything.

Senator LUNDY—Okay. The point I am making—I am sure you appreciate this—is: was any value ascribed to those existing assets as part of the contract?

Mr Blewitt—There was very little value ascribed to this, because it was a run-down asset which we had been propping up for a number of years. As an asset it has very little marginal value.

Dr Watt—As you appreciate, IT systems that are more than a few years old have very little value.

Senator LUNDY—In some cases.

Dr Watt—In most.

Senator LUNDY—Yes, it is all relative. I am sure you can appreciate that this whole issue of asset transfer is quite significant in IT outsourcing and I am just trying to gauge to what degree OASITO sought to sneak these little methodologies onto the MTACO project.

Mr Blewitt—Our view was that this thing would have continued to cost us more to actually keep it working, so it was a down cost as well.

Senator LUNDY—Okay. What are the human resource implications of the change you are currently negotiating?

Mr Blewitt—We had in total about 22 people in the area, 14 of whom are actually ongoing employees. The other eight are casuals or contractors. Effectively, a number of those casuals have already left, as have a number of the ongoing staff. They have options of being redeployed inside the department, being assisted to find alternative employment elsewhere or taking packages. And, of course, we have another substitution arrangement which we are discussing within the department where one person of another group might want to substitute, if there is an appropriate exchange, for example. Finally, we have engaged some outplacement assistance to help people through the process. We have been working with them now for about six months to make sure they have all the options available and are fully ready for changes in career or changes in location. I think that has been quite helpful.

Senator LUNDY—Has anyone been made redundant against their choice?

Mr Blewitt—No.

Senator LUNDY—Are you sure about that?

Mr Blewitt—Well, no. The intention was that—we have not made anyone redundant in this process.

Senator LUNDY—Is there an option to transfer to the outsourcer? I presume the negotiations—

Mr Blewitt—Yes, there is. We have left it pretty much up to the outsourcer to make those decisions themselves. Certainly those people who are interested have in fact expressed that

interest to the outsourcer already and they are going through some interview processes now. Of course, the finality of that will depend on finalising the contract, I assume.

Senator LUNDY—Sure, I appreciate that. I am just trying to gauge what, if any, preconditions exist on those people gaining employment.

Mr Blewitt—We had a clean break process in the contract. Having said that, there are a number of our staff who I think the outsourcer is keen to attract.

Senator LUNDY—You mentioned before the time you spent on service level agreements as part of the contract.

Mr Blewitt—Yes.

Senator LUNDY—Do you have a series of penalty clauses or sanctions within the contract if they fail to meet them?

Mr Blewitt—Yes, we do.

Senator LUNDY—What do they look like?

Mr Blewitt—We are finalising them internally, but certainly we are looking at them, particularly in areas where you need zero tolerance, if you like, in terms of efficiency, such as payroll. That is a critical area that will have some pretty significant penalties.

Senator LUNDY—I suppose this gets into an area of contract law, which is one of the reasons it concerns me. If there is a question of liability—that is, there is a breach of confidence of personal information or privacy in relation to the employees of the department—with whom does the aggrieved party seek retribution? You or the contractor?

Mr Blewitt—I do not know the answer to that. We would have to take it on notice. I suspect it would be with the department, with the contractor being our agent. We would have to look at that as an issue for you.

Senator LUNDY—It is an issue that has been raised before. The best example I can think of was that the Commonwealth Ombudsman's report of 1996 raised as quite a critical factor the merits—almost that ethics, if you like—of using contractors to provide public services, whether it is for employees or citizens. I am sure if you take that on notice, you will be able to help clarify that. Is that an issue that you have specifically looked at in terms of the contract, given that a lot of the private sector motivation for contracting out is actually to shed themselves of risk, to move risk?

Mr Blewitt—That is an issue. I suppose the other associated issue is to make sure that there was very close compliance with security—both personal information and staff information. I think we will be considering closely those two issues in the next week or so.

Senator LUNDY—I cannot think of anything else to ask about MTACO. Can I ask some questions about the IT outsourcing? Is that you as well?

Mr Blewitt—One of us, yes.

Mr Roberts—It will be.

Senator LUNDY—My eyes are failing at this time of night. Thank you for providing all of the answers to questions on notice. I do appreciate it was quite a significant task, but it has been most helpful. Again, I was just looking for a bit of an update as to the ongoing experience of participants in the group 5 contract, particularly the resolution of some of the outstanding problems that you had had within that contract. I invite you to provide some

general observations. Feel free to reflect on information you have already provided to me on notice, particularly about the performance of Advantra.

Mr Roberts—Probably the most significant thing—and I think we have talked about this in the past—is the standard operating environment of Advantra. As part of their bid they were going to put a standard operating environment in place across all five of the group 5 agencies. We are pleased to say now that we have actually finished that process. I guess it is fair to say that we see that as a point where things will start to improve because they have replaced technology that we knew was old and outdated and also very hard to attract and retain skills in. We are pretty happy that we have an environment now that is very industry standard and that Advantra built themselves. They know it, they understand it and they should be able to maintain it. It is still fairly new. There were a few teething problems putting that in, as we would have expected. The early signs are that things certainly are improving. The stability of our systems is definitely improving and their ability to be able to resolve issues as they come up is also improving. There are still a few teething problems, and we are working through those. We are actually working quite hard with them to identify them and come up with some solutions when we do come across them. I guess in general the feeling is that things are improving, yes.

Senator LUNDY—With the changes that are mooted to the general policy of IT outsourcing—that is, empowering agencies to make determinations and decisions down the track—are you able to comment on how that augurs for the department’s experience in the future? I am not asking you specifically to reflect on Advantra’s future, because I know you no will doubt come to the right decision at the right time to deal with that. But do you think that the changes in policy have generally helped improve the environment and the relationship with your service provider? I do not know if you can answer that. I guess I am asking for some qualitative observations.

Mr Roberts—To be honest, I do not know that it has particularly affected us. We had a contract that was put in place when these changes were not around. Most—if not all— of our focus now has been on making that one work and making sure that we get to the level of service that we are happy with. We certainly have not put a lot of thought into what effect it has had, because I do not think it has necessarily had a lot yet. I think it will have once we get to the point, in a couple of years time, where we have to go through the process and start looking at the process again.

Senator LUNDY—Is it still costing you more money?

Mr Roberts—The contract now? As we explained in the past, it is very hard to tell, isn’t it?

Senator LUNDY—You are allowed to say yes.

Mr Roberts—We had a saving, didn’t we?

Senator LUNDY—It depends how you count the numbers, I guess.

Mr Roberts—Like I said, it is very hard. You cannot really compare apples with apples now.

Senator LUNDY—Just on that point, because of the way the formula was constructed, it is, in fact, very difficult to compare your original baseline costs with whatever you are spending. Are you actually turning your mind to now establishing some baseline costs with your own formula to determine the efficiency of your external service provider?

Mr Roberts—The current service?

Senator LUNDY—Yes.

Mr Roberts—We are certainly in a position now to be able to know what those costs are—more so than we were in the past. The problem in the past is that it was actually quite academic as to what it was costing us in the past. Now that is far clearer. I think when we go through the process again, certainly we will have quite good baselines and we should be able to have something fairly measurable next time.

Senator LUNDY—I guess the point is, given the fact that you are handing over money every month or however often—how often you pay your accounts?

Mr Roberts—Every month.

Senator LUNDY—It is every month. You can obviously track the cost, but I am curious as to whether you have within that accounting process built in an evaluation assessment for your own benefit so you can look at what happens next for the department at the conclusion of this contract or even to monitor growth in costs that were unanticipated, for example? Do you see what I mean?

Mr Roberts—Like I said, we certainly are far more able to identify those now. There are some costs that are fixed and there are some costs that move, but move in accordance with, say, increases in the number of desktops that we have in the department. The information is definitely there now.

Senator LUNDY—In relation to the provision of IT infrastructure and the MTACO project, that obviously involves some new equipment and I suspect bits of software and things like that. What relationship is there between the Advantra contract and the whole process of outsourcing human resources?

Mr Roberts—I guess it is quite independent. We could handle it two ways, depending on what was bid by somebody in that process. If the bid in that process was that the people would supply the system, would manage the system, then in that instance there would be no impact on Advantra. Alternatively, they may choose to retain our existing system, which probably would not have been a great idea in this instance. In that case, Advantra would have continued to have a role in maintaining that. In this scenario, no, the IT outsourcer does not have a role in maintaining any of that software or any of that system other than to provide connectivity into our network.

Senator LUNDY—I guess that is my point. By virtue of outsourcing the HR component of corporate services, that takes a little slice of what was previously the Advantra pie out of the Advantra contract and wraps it up in a new proposal and a new contract.

Mr Roberts—That is correct.

Mr Blewitt—That is right.

Senator LUNDY—Is there anything in your contract with Advantra that creates a vulnerability for the department in pulling that little bit of Advantra pie out of that contract?

Mr Roberts—No, it does not.

Senator LUNDY—You can pull the piece of pie out of the Advantra contract?

Mr Roberts—Yes, because it is an application. Applications are a little easier to deal with. In the Advantra contract, we basically pay them for the capacity that we use on an application server. So if we add a new application, we simply pay for the capacity we are using. It goes up

and down. In fact, we add new applications and take applications away. That is the way it works.

Senator LUNDY—Is there any update into the penalties you have had to apply to Advantra since you provided answers to questions on notice?

Mr Roberts—Probably just one more month. In fact, it may not have been processed.

Senator LUNDY—Does one more month mean one more penalty?

Mr Roberts—It has been one more. In fact, it was a very small penalty the last time. So it was one—

Senator LUNDY—Take heart.

Mr Roberts—We were quite pleased that it was quite a reduced penalty, and we are kind of hoping that it will stay that way.

Dr Watt—I think, from our point of view, we have a contract with Advantra; we are committed to making it work as best we can.

Senator LUNDY—You do not have a lot of choice, and I have always—

Dr Watt—That is right, but we also—

Senator LUNDY—commended you on your diligent efforts to make it work.

Dr Watt—We may not have much choice but also we do not particularly want to be in a position to impose penalties.

Senator LUNDY—No.

Dr Watt—We want a system that works. I think Advantra are also looking at it in that context, and we are certainly committed to working with them to improve the level of service. We would be delighted if the level of penalties went down to zero and stayed at zero, because that would mean that we would have a system that was a good one.

Senator LUNDY—Yes. I am sure they would agree with you. I think that is all I have for this evening. Thank you for your patience today.

CHAIR—Thank you, Senator Lundy. I thank the officers for appearing. I thank Hansard for staying on.

Dr Watt—Can I just confirm that we have done all the business on the day sheet and tomorrow we start with SBS?

Senator LUNDY—Indeed you do, just with that one qualification that I know that my colleagues will want those officers back from that part of 2.1.

CHAIR—They are different officers, though.

Dr Watt—You mean the telecommunications officers, yes. We will have those back. They will be there.

Senator LUNDY—I just do not want to get into a situation where tomorrow afternoon you say, ‘No, we are not having these officers from 2.1 here.’

Dr Watt—No, we brought them on as an add-on tonight. That is our commitment. They will be back tomorrow.

Senator LUNDY—And I appreciate your cooperation, Dr Watt.

CHAIR—So we will adjourn until tomorrow morning at 9 o'clock.

Committee adjourned at 10.34 p.m.