



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

STANDING COMMITTEE ON ECONOMICS

Reference: COAG Reform Fund Bill 2008

TUESDAY, 25 NOVEMBER 2008

CANBERRA

BY AUTHORITY OF THE SENATE

INTERNET

Hansard transcripts of public hearings are made available on the internet when authorised by the committee.

The internet address is:

<http://www.aph.gov.au/hansard>

To search the parliamentary database, go to:

<http://parlinfoweb.aph.gov.au>

**SENATE STANDING COMMITTEE ON
ECONOMICS**

Tuesday, 25 November 2008

Members: Senator Hurley (*Chair*), Senator Eggleston (*Deputy Chair*), Senators Bushby, Cameron, Furner, Joyce, Pratt and Xenophon

Participating members: Senators Abetz, Adams, Arbib, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Ellison, Farrell, Feeney, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Hanson-Young, Heffernan, Humphries, Hutchins, Johnston, Kroger, Ludlam, Lundy, Ian Macdonald, Marshall, Mason, McEwen, McGauran, McLucas, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Williams and Wortley

Senators in attendance: Senators Bushby, Cameron, Eggleston, Furner, Hurley, Joyce, Ludlam, Pratt and Xenophon

Terms of reference for the inquiry:

To inquire into and report on: COAG Reform Fund Bill 2008

WITNESSES

BENNETT, Mr Shane, Acting Branch Manager, Funds Branch, Department of Finance and Deregulation	16
BOYD, Mr Brian, Executive Director, Performance Audit Services Group, Australian National Audit Office	2
CAMPBELL, Ms Kathryn, General Manager, Financial Management Group, Department of Finance and Deregulation.....	16
COCHRANE, Mr Warren, Group Executive Director, Assurance Audit Services Group, Australian National Audit Office.....	2
GREEN, Mr Micah Andrew, Analyst, Budget Policy Division, Department of the Treasury	8
GREENSLADE, Mr Alan, Division Manager, Funds and Superannuation Division, Department of Finance and Deregulation	16
PURVIS-SMITH, Ms Marisa, Manager, State Finances Unit, Department of the Treasury	8
TUNNY, Mr Gene Patrick, Manager, Government Investment, Risk and Debt Policy Unit, Budget Policy Division, Department of the Treasury	8
WHITE, Mr Peter, Group Executive Director, Performance Audit Services Group, Australian National Audit Office.....	2
WILLCOCK, Mr Michael, General Manager, Commonwealth-State Relations Division, Department of the Treasury.....	8

Committee met at 6.03 pm

CHAIR (Senator Hurley)—I declare open this meeting of the Senate Standing Committee on Economics. This is a public hearing into the provisions of the Nation-Building Funds Bill 2008, the Nation-Building Funds (Consequential Amendments) Bill 2008 and the COAG Reform Fund Bill 2008. The inquiry was referred to the committee by the Senate on 23 October and 13 November for report by 1 December. These are public proceedings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera.

I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera.

I remind senators that the Senate has resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits any questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. Officers of departments are also reminded that any claim that it would be contrary to the public interest to answer a question must be made by a minister and should be accompanied by a statement setting out the basis for the claim.

[6.05 pm]

BOYD, Mr Brian, Executive Director, Performance Audit Services Group, Australian National Audit Office

COCHRANE, Mr Warren, Group Executive Director, Assurance Audit Services Group, Australian National Audit Office

WHITE, Mr Peter, Group Executive Director, Performance Audit Services Group, Australian National Audit Office

CHAIR—Welcome. Do you wish to make a statement?

Mr Cochrane—Yes, I will make a very short opening statement. Let me start by saying that the ANAO is not an essential player in the establishment of the new nation building funds. As the committee would appreciate, finance was largely responsible for the work to date and, of course, implementation will rest with a number of other departments. As parliament's auditor, the ANAO, whilst not part of the policy development process, has done a lot of audit work in some of these areas. In making a submission to the committee, we thought we could bring forth some of our experience and give you an indication of where we think we, as parliament's auditor, will head in relation to the establishment of the new funds.

As the parliament's auditor, we have two significant roles. The first is our financial assurance role, in which we do the traditional financial statement audit of a number of these funds—as they have existed to date, anyway. Our other role is in a performance audit process, where we target different programs and do an in-depth review of how they are running and whether they are meeting their objectives. I will give you a brief outline of our financial assurance role and my colleagues will give you some outline of where we have been and where we are going with the performance audit activity. We will be happy then to take questions from the committee.

In the financial statements' audit role, our work to date has largely been directed at the annual audit of the Future Fund Board of Guardians and the Future Fund Management Agency; the audit of the Communications Fund, which has been under the control of the Department of Broadband, Communications and the Digital Economy but has been invested through the Australian Office of Financial Management; and the audit of the Higher Education Endowment Fund, which is generally under the direction of the Department of Education, Employment and Workplace Relations but is also invested through the Future Fund.

Our audit activity in that area has been largely directed towards examining compliance with the investment mandate. We see the investment mandate in these funds as being a very important document for a number of reasons that we will outline during the course of the discussion. In addition, our work on the financial side has been directed largely at the valuation and verification of the existence of investments and their being properly accounted for. I will ask my colleagues now to give a brief outline of the performance audit area.

Mr White—In the forward program that we put out in July, we have indicated we will be undertaking a series of performance audits looking at the establishment of each of the three nation building funds. At the moment, subject to our resourcing and priorities, the first audit we are thinking of doing will commence late in this financial year, which is in May or June of next year. In that audit we will examine the establishment and management of the funds, including governance structures and controls relating to the investments of the funds. From there, we will look at doing a series of audits looking at the selection and management of the projects in each of the three funds. We are happy to take questions.

CHAIR—Have you looked yet at the infrastructure fund that is set up already?

Mr White—Not to date on the financial side.

Mr Boyd—Do you mean in terms of the HEEF, the Communications Fund and the Future Fund?

CHAIR—No; the infrastructure fund, which I understand has been set up already.

Mr Boyd—Infrastructure Australia?

CHAIR—Infrastructure Australia.

Mr Boyd—As we understand it, they were established late in the last financial year. At this stage we have not done any performance audit activity on them. Obviously, that will come into consideration for our future work program, including when we look at the selection of the projects, given the way that the legislation

works with the responsible minister being required to have regard to the recommendations of Infrastructure Australia in deciding which projects will receive payments. That will be a key part of those audits as well.

CHAIR—Generally speaking, it is complex legislation and has a number of layers. Can you give an overarching view as to whether the legislation seems to set up a reasonable level of checks and balances?

Mr Cochrane—From our perspective, the FMA Act is still operational. In managing the investments, particularly in the case of the Future Fund, we have access through the Future Fund Act itself. That gives us a distinct audit mandate to examine the annual accounts of the Future Fund. In addition, the FMA Act gives us a distinct mandate to examine the annual accounts of finance, and I understand that they will hold the nation building funds in their accounts. So we will have access to auditing the actual investment as it goes through the special accounts in finance. Also, under the Auditor-General's Act, we have the performance audit powers. Those powers will give us access to how those moneys are spent and to the grants that are made from each of the funds. As my colleagues have outlined, that performance audit work will commence with the set-up and the governance arrangements for the new funds.

Senator XENOPHON—I will follow on from what the Chair has asked. I understand the powers that you have to scrutinise audit functions and the like, but I think one of the issues of concern here is the way in which decisions are made in the first place for the allocation of funds. I think it was your office that was fairly critical of the Regional Partnerships grant—and I think that was about a year or a year and a half ago.

Mr Cochrane—About a year ago, yes.

Senator XENOPHON—That was quite a controversial report. That is a slightly different issue, isn't it, as to how an allocation of funding is made in the first place and the safeguards with respect to that. What role does your office have in relation to determining whether a decision has been made fairly or without bias in the context of the allocation of funds in the first place?

Mr Cochrane—Essentially, the Audit Office operates in a world that is largely post the event but, through reporting to parliament on the results of the audit, we give accountability and transparency to those decisions. We are not the decision maker. I suppose, in the construct of the way things work, managers are left to manage and auditors are left to provide assurance that they are managing and making decisions in the right way, in accordance with whatever frameworks and rules we have in existence. So, during the financial process, we make sure that all the funds that are going out are being duly authorised and duly accounted for and, from a performance audit process, we tend to look at whether those funds have gone out against the predetermined objectives and criteria that have been set up for each of the programs or, in this case, the funds.

Senator XENOPHON—For instance, if the legislation provided for certain criteria and certain protocols to be followed, the Audit Office could have a role there before the event, in the sense of determining whether those criteria were followed to the letter.

Mr Cochrane—Yes, although it really is a matter for parliament in that sense. There are a couple of examples of that approach now—one is with government advertising; we do sign off that government advertising meets predetermined criteria—so it is not an unheard of concept.

Mr White—As Mr Cochrane has said, a lot of our audit work is post the event; however, we do try to gather together better practice. If we look at, say, a grants program, we try to put the lessons that have been learned into the reports that we put out. We try to put things like that into better practice guides. One would hope that agencies setting up grants programs would draw on our better practice guides in terms of what look like good criteria and decision-making in connection with the allocation of money.

Mr Boyd—It is our understanding here that Infrastructure Australia, for example, comes into play at two different points in time. Firstly, there is the prioritisation process that is consequential on the first audit. Originally, our planning was based on the timing that the first audit was to be completed, which was in March 2009. That has now come forward, with the global financial crisis; therefore, in connection with our initial activity, we will work on the basis of March. We would have given consideration to whether we audit the conduct of that first audit in the 2009-10 year, and that is something that we would still give consideration to doing.

But a key thing there, as we understand it, is that the role for Infrastructure Australia now is not so much undertaking audits themselves but assisting others to undertake that initial appraisal work, and Infrastructure Australia will then use that to develop a priority list. So in a way its role has changed, and that is something that we would have to have regard to in our work. Our understanding is that that is the first point at which Infrastructure Australia plays a role in developing that national prioritisation list.

Then, in our understanding, the second point is when it comes time to take money from each of the portfolio funds. The responsible minister then is required to have regard to Infrastructure Australia's input about whether those particular projects are ones that sit against the criteria. From the legislation, our understanding is that criteria will be determined. I am not clear about whether that criteria has yet been determined, but we would certainly look at the process by which, under both those audits—the first audit, the prioritisation audit; and then the later projects, if we were auditing them—the criteria was set. We would look then at the extent to which the criteria was applied and whether it has worked out in a way that delivers against the objectives of the program, as Mr Cochrane was saying.

Senator XENOPHON—What is your understanding of other jurisdictions where audit officers have a more active role pre the event, in a sense, in ticking off on criteria? You may not know this, but can you tell us whether in Europe or the US, for instance, there are other jurisdictions where audit officers have a more active role earlier in the process?

Mr Cochrane—Largely, in the Western world it is definitely post event. I am aware of some areas in the French system where there are measures that involve them earlier in the piece, but they are operating under a completely different framework. We are broadly consistent with the British and the US et cetera.

CHAIR—The bill requires portfolio ministers to seek advice from the three independent bodies—and I think you mentioned Infrastructure Australia, the EIF advisory board and the HHF advisory board, which I think are appointed by the minister. Do you regard that as an independent enough structure?

Mr Cochrane—I think that might be not too much of a matter for the Audit Office to comment on. I do not see it as being an unusual arrangement in government. The government has many advisory boards that have members that have been selected through the standard processes.

CHAIR—I suppose you might say that, as long as there is the rationale for the decision and they are all following those best practice guidelines, that is a sufficient trail to follow through.

Mr Cochrane—Yes. That is certainly what we would look for in the auditing process, to make sure that everything was managed against that predetermined criteria and that the proper processes that were involved, from the point of view of the committee, the minister and the delegates, were all being complied with. Essentially, that is compliance with the legislation.

Mr Boyd—A key thing for us, where we have often had difficulties in these sorts of areas, is where the criteria is not spelt, not spelt out clearly or not adhered to. With this legislation, our understanding is that the criteria is to actually be put forward in a legislative instrument, and we think that would provide a reasonable degree of transparency as to what the criteria is. A key issue then is making sure that agencies and advisory boards are adhering to and applying only that criteria which is specified.

Senator LUDLAM—Thank you for attending here this afternoon. I want to put a couple of questions to you going directly to your submission about the kinds of instruments these funds will be investing in. On page 2 you talk about the difference between investment of public money by agencies that are subject to the Financial Management and Accountability Act compared with the kinds of investments that these funds will be able to undertake. Can you just tease out what you mean high up on page 2, where you state:

Nevertheless, the categories of authorised investments are not as clear to the Parliament under this latter approach—

Presumably, that is because there is a broader range of instruments that these funds can invest in. I am interested in why you have drawn that out there.

Mr Boyd—I guess the issue for us is that, if you look at the Financial Management and Accountability Act, the permissible instruments that you are allowed to invest in are specified, firstly, in the body of the act and, secondly, through regulations—and the regulations are a disallowable instrument by virtue of the parliament. So that is either through direct law or through, if you like, secondary law. The approach that is taken here—it is modelled essentially on the Future Fund and the Higher Education Endowment Fund—is to refer to GFS Australia, which is an economic reporting standard. We are simply drawing attention to the fact that the definition is by reference to some other document rather than directly through the legislation, which is a further level down. From our perspective, that is somewhat less transparent in terms of the parliament: it is a less direct way of getting the parliament's input into whether it is satisfied with that.

The other challenge has come about because a document such as GFS Australia is not designed for this particular purpose; it is designed for other purposes. Then, looking at GFS Australia, it does have a rather

broad range of instruments that are considered a financial asset, which means there is a very broad range of investments permissible. From our perspective, a control perspective, that puts added emphasis on the investment mandate, which is decided under the legislation and working through the Future Fund Board.

Senator LUDLAM—In your consideration, does that make these investments slightly more opaque? Is it exposing the taxpayer to a higher level of risk, particularly given the current market circumstances?

Mr Boyd—Clearly, as I think we put in our submission, when one looks at the definition of ‘equity’ under GFS Australia, it is very broad and it allows a lot more in the way of investment than under the FMA. We are not advocating that the FMA should be applied here; we are simply noting for the purposes of information that it is much broader than the FMA Act. The explanatory memorandum, which I think is on page 19, says that the investment approach is modelled on section 39 of the FMA Act. Whilst the process may be modelled in that way, the breadth of investments which are permissible is many times broader than that under the FMA Act. From our perspective, in a risk based sense—I think the chair asked about this earlier—that is something that we would look at. A lot of our submission talks about things which we are quite used to seeing. In a risk based sense regarding ‘tried and proven’ and so forth, we have tried to draw attention to things that are outside what you often see. That does not necessarily mean that those things should not occur; it just means that, in a risk based sense, added attention is required to be given to the proper management of those things.

Senator LUDLAM—You have drawn it out in quite a bit of detail in your submission here. The reason that I want to pick you up on some of these questions is that, given current market circumstances—the Australian share market has lost something in the order of half its value since this time last year—what is your take on the broader degree to which these funds are able to invest? Is that increasing or decreasing the risk to the taxpayer?

Mr Boyd—On a risk return trade-off, logically, from our perspective, if one were to invest in this broader range of instruments, you would be taking an added degree of risk compared to more conservative instruments; but also, hopefully, you would be looking for higher returns than otherwise. There is a balance to be struck there and we are simply drawing attention to the fact that the possible balance here is much broader than the balance that often occurs for investing public money.

Mr Cochrane—It is quite a complex question. We are very conscious that, as Brian says, you are trying to strike a balance between risk and return. It is important to know that the expectations of that are set out very clearly in the investment mandate because, if the desire is for a very capital-secure highly liquid investment, that is where the investment managers should take you and, consequently, you might have a lower return. But the investment mandate that is developed for each of these funds will be a critically important document.

Mr Boyd—We derive some comfort from the fact that, compared to our work on the Communications Fund, the Future Fund Board and the Future Fund Management Agency will be involved in setting that mandate and administering the investments under that, and they should have some expertise in this area. We have audited them in a financial statement context but not yet in a performance audit context, and that gives us some comfort. But the other aspect we have drawn attention to is that those, if you like, similar types of investments that can be taking an equity stake in companies delivering infrastructure will be run through a different arrangement outside the Future Fund. When it comes to portfolio departments administering those sorts of investments, that again is higher in terms of our risk threshold.

Senator LUDLAM—Let us go there. In your previous audit work on government business enterprises, you have drawn attention to the risks that have been associated with individual portfolio departments overseeing those kinds of investments without a central coordinating agency. Can you outline what those risks are, as you see them?

Mr Boyd—Essentially, in this case you would be looking at situations where presumably there would be part-owned entities through unit trust arrangements, direct shareholdings and so forth. Government business enterprises were generally wholly owned by the Commonwealth, so it was a slightly different situation. But the issues we drew attention to—we did two audits in this area—was that, when individual portfolio departments were administering our shareholding in those entities, you got a great degree of inconsistency in practice and procedure as to how it was done. But it was very difficult for individual portfolio departments to build up any degree of expertise and speciality in those sorts of areas. It was very difficult for them to do a good job administering the Commonwealth’s shareholdings in GBEs, when they did not have the expertise around it.

Over time we have seen the Department of Finance and Deregulation having central responsibility for administering our shareholding in those things. We saw that as an improvement, in that you could develop some level of core expertise by administering a number of them in the one department, which would mean that you would get a better quality in terms of supervision. We can see that some of those risks might exist with portfolio departments looking after unit trust shareholdings—say, the infrastructure department in transport entities, the department of communications in IT entities and so forth.

Senator BUSHBY—Would it be correct to say that a good public infrastructure program should be based on an accurate assessment of each proposed project to see whether it produces a net public benefit?

Mr Boyd—I think that is a principle we would agree with.

Senator BUSHBY—So would there be any value in these funds having an independent expert body, like the Productivity Commission, looking at potential projects to avert the possibility of white elephants or projects being delivered in haste or for the wrong reasons?

Mr Boyd—Looking at both the legislation, as we understand it, and the publication of Infrastructure Australia, there certainly seems to be a degree of scrutiny there already. As I mentioned earlier, it seems to us that there is a challenge for Infrastructure Australia in that, as we understand it, its current task is really to have others perform an appraisal role, and obviously in some cases it might be project proponents performing their own appraisal. In that case, Infrastructure Australia's role is more to provide some scrutiny over such an appraisal and to put that through a prioritisation process. From our perspective, that is somewhat different from an independent body appraising individual project proposals from the beginning. We think that raises some challenges. We would look quite carefully at how that was managed, if you were to have potentially a project proponent doing some of the project appraisal work, including the cost benefit analysis.

Senator BUSHBY—Could that continue under these bills?

Mr Boyd—That is our understanding, yes.

Senator BUSHBY—So interposing a Productivity Commission or some other similar body may resolve the concerns that you have as to how that may play out.

Mr Boyd—In a way, it would depend on how Infrastructure Australia is discharging its responsibilities: how it is scrutinising the analysis and the appraisal put together by the people putting forward projects for consideration.

Senator BUSHBY—As I understand it, the ongoing running and maintenance costs of projects are not able to be met out of the funds—and that is quite specifically set out. Does this mean that the whole-of-life costs of proposed infrastructure assets could not be properly considered when funds are being invested?

Mr Boyd—As we understand the monetised cost benefit analysis that Infrastructure Australia is going to be undertaking, there seems to be some rigour to it. But certainly, from our perspective, we think that appraising any sort of infrastructure proposal is important where you are potentially going to be funding over a lifetime and considering whole-of-life costs.

Senator BUSHBY—But, given that here they quite specifically cannot use the funds for maintenance costs, is there a risk that we could end up with projects being proposed that cannot be implemented properly because of ongoing costs and the entity that will end up owning or running the infrastructure, perhaps not having the ability to finance the ongoing costs, still quite liking the idea of getting the money up front for the capital costs?

Mr Boyd—That is a risk. With any sort of program from the Australian government, which is funding such projects, we would usually expect to see that managed as part of that evaluation criteria—which, as I say, we have not yet seen—where you would look at not only the viability and sustainability of the project but also sometimes the viability and sustainability of the proponent in how it makes its arrangements. In that way, you would ensure that you would not have a project built which then could not be maintained and used; you would make sure that it could actually deliver on its benefits. We would expect those sorts of considerations to feature in any evaluation criteria, when you were building an infrastructure project with a long tail on it.

Mr Cochrane—It is something that we look for in a lot of other Commonwealth projects that we look at. For example, with Defence acquisitions, we look at how they will be maintained through their whole-of-life.

CHAIR—Some of these projects may be public-private partnerships, and I presume that you evaluate them in the same way that you would evaluate a project where there was a single proponent.

Mr Boyd—Yes. I am looking here at Infrastructure Australia's public outline of its privatisation methodology. One of the things that they say they take into account in their monetised benefits and costs calculation is operating costs. So that should be featuring, as I say, as part of the evaluation process.

Senator BUSHBY—One of the funds is an education fund. It brings to mind the situation of the computers in schools, which is a significant investment in infrastructure. But that did become a problem because the states were not able or willing to fund the software and setting up et cetera. Obviously, in that case, that was not included in the evaluation. That raises concerns that it might not be in the future with others and whether there is sufficient rigour in this to ensure that it will be.

Mr Boyd—Certainly, as I say, our expectation in auditing this is that—

Senator BUSHBY—You would be looking for that?

Mr Boyd—We would be looking for that, yes.

Senator BUSHBY—The funds allow for decisions to be made without making public the information as to what the basis for those decisions was. So there is an issue about transparency, as I see it. In other countries, that is different. With major infrastructure projects in the US, commercial bidders can be called before the US Congress and the Senate as part of their processes. Here there does not appear to be anything that requires transparency so that the public can be sure of the basis on which the decisions were made. Would something like that be of benefit in the overall running of these funds—that is, having greater transparency with the reasons behind the decisions rather than with the decisions themselves?

Mr Boyd—It is not unusual in our experience for the reasons not to be made public. Certainly, from our perspective, when we look at the decision-making process, we look for those reasons to be documented. We analyse whether those reasons appear reasonable against the criteria and the objectives of the program. So we expect them to be documented, but it is not unusual in our experience for them not to be published necessarily, particularly because a lot of it comes down to a comparative assessment. You can then publish the fact that one project was more meritorious than another, which can raise issues then in terms of fairness to the unsuccessful—

Senator BUSHBY—But in other nations, like the US, with big issues that involve the spending of public money, they do go through that process.

Mr Boyd—I am saying that, in our context, for example, when a major tender is conducted, we have found that the reasons for a successful tender being considered better than those that were unsuccessful are not usually published.

Senator BUSHBY—Is there anything in the way this has been set up that you understand will guarantee that state governments will not take projects off their books or will not put projects on their books that they would have done otherwise, bid for these Commonwealth funds and simply substitute Commonwealth money for state money?

Mr Boyd—Again, one of the things that we would look at—it varies program by program—is whether there is cost shifting. That is looked at as part of the evaluation criteria, either in a good sense or a bad sense. With some of the programs we look at, there is a clearly stated desire that the Australian government will not fund projects that are the responsibility of another government and/or involve cost shifting. Given the nature of some of these funds, such as education and so forth, there would seem to be an implicit acceptance, if not an explicit acceptance, that there is a—

Senator BUSHBY—There is a degree of state government responsibility.

Mr Boyd—Yes.

Senator BUSHBY—My concern is that we have had Premier Rees and the mini budget, in which it was noted, I think, that four projects would not proceed before 2012 without Commonwealth funding; but a week earlier, prior to the mini budget, those projects were going to be funded 100 per cent by the state government. That just raises issues as to how state governments might be rubbing their hands together with glee, looking at this fund and thinking how they are going to get in there and rape and pillage it. What effective mechanisms are there to ensure that does not happen?

Mr Boyd—A lot of the emphasis for us there, when we do our evaluation, is to look at how those things were properly considered and whether sufficient due diligence was done. If that has not happened as part of a program, that is—

Senator BUSHBY—But that is all a matter of hindsight though, isn't it, looking at how it worked rather than at how it will work?

Mr Boyd—Our understanding with these funds is that, whilst they are not perpetual, they will exist over a period of time. As Mr White has said, we plan to do a series of audits looking at each of those portfolio funds. We will probably start with the education fund, since it was announced in October that it has had a funding round undertaken already. Therefore, future funding rounds can be informed by our doing work on earlier funding rounds. In addition, the administration of other funds can be informed by what we say about the first funds we audit.

Senator BUSHBY—So hopefully they will not spend too much money in the first round so that, if there are problems, you can fix them before they get into the big spending ones down the track. Thank you.

CHAIR—As there are no further questions, we thank you for appearing here this evening.

Proceedings suspended from 6.38 pm to 6.51 pm

GREEN, Mr Micah Andrew, Analyst, Budget Policy Division, Department of the Treasury

PURVIS-SMITH, Ms Marisa, Manager, State Finances Unit, Department of the Treasury

TUNNY, Mr Gene Patrick, Manager, Government Investment, Risk and Debt Policy Unit, Budget Policy Division, Department of the Treasury

WILLCOCK, Mr Michael, General Manager, Commonwealth-State Relations Division, Department of the Treasury

CHAIR—Welcome, and thank you for attending this evening. Do you wish to make an opening statement?

Mr Green—I do not think so, thank you.

CHAIR—The question that is obvious here is the difference in what was proposed for these funds originally and what is predicted now under the mid-year economic forecast and the generally changed conditions and whether that will affect the future viability of the funds and what they are meant to achieve.

Mr Willcock—The reason that we are here is principally to deal with the COAG Reform Fund Bill element of the package. As you would appreciate, I come from the Commonwealth-State Relations Division and that element of the package provides for the direction of funding from the nation building funds and, indeed, from the Commonwealth budget for certain purposes to the states. So, when it comes to issues to do with the funding that is available within the Building Australia Fund, the Health and Hospitals Fund and the Education Investment Fund, that I think is more appropriately an issue for our colleagues from finance than for us.

CHAIR—Can you just elaborate on that? So are you only dealing with payments to the states?

Mr Willcock—Yes. There are four funds. Three of them—as I said, the BAF, the Education Investment Fund and the Health and Hospitals Fund—will be holding money. The fourth, the COAG Reform Fund, in and of itself, is not a fund to hold money so much as a vehicle for transferring funds from those first three funds to the states as well as for transferring some budget funding to the states for various purposes to do with promoting COAG national reforms. So, as I have said, the COAG Reform Fund is a vehicle or a mechanism for making payments from those other three funds. That is our connection to the package. It relates to the operation of the COAG Reform Fund as a way of making those payments to the states as opposed to things to do with the structure et cetera of the BAF, the HHF and the EIF, as they are colloquially referred to by us. Those other issues are more specifically issues that our colleagues from finance would handle.

CHAIR—What about the Future Fund that now exists in the Higher Education Endowment Fund? Do you have any connection with those two funds?

Mr Willcock—No. Again, I think those funds would be more for our colleagues from finance to handle. It may perhaps help if I were to say that—I suppose this is, if you like, almost a little bit like an opening statement after the event—as no doubt you would be aware from the extrinsic aids and, indeed, the second reading speeches et cetera, when the government decided and announced in the budget that it was setting up these funds, budget paper No. 3 in particular, which deals with Australia's federal relations, was given a particular box on the COAG Reform Fund element of the overall package. As I say, the role of this is to provide a transmission mechanism for these Commonwealth funds. So our involvement is, I suppose, simply with the creation of the COAG Reform Fund as a means for transferring Commonwealth funding to the states for particular purposes. The purpose of the principal funds, which are the funds that will be holding the funds et cetera—how they are financed and how decisions are made in relation to projects that are deserving of

funding with money from those funds—is not something that we deal with. Those sorts of issues our colleagues at finance are principally responsible for.

CHAIR—Can I ask you then: money will be directed through the COAG Reform Fund to the states, but there are two other methods of payments: direct payment, or payment through the portfolio. Will payments of the money mostly go through the COAG Reform Fund? How will it be decided which way it will go?

Mr Willcock—There are possibly two ways of answering that question and I will try both ways, in the hope that one or both of them are of assistance to the committee. In relation to projects that are to be funded with funding from the BAF et cetera—those three funds—any funding for projects which effectively will be funding a state or territory government project will go through the COAG Reform Fund. So, when it comes to the disbursement of funds from those three nation building funds, the options will be: firstly, if it is going to a state or territory government, in which case it will have to go through the COAG Reform Fund; and, secondly, if it is not going to a state or territory government—and I would defer to our colleagues from finance to explain how disbursements from funds that are not going to states or territories might be disbursed. That is one way of answering the question.

If, instead, your question is more directed at thinking about the totality of Commonwealth funding flows to the states and territories and the means by which the Commonwealth will be paying those funding flows to the states and territories, the bill that is before the parliament, which is consistent with the government's announced policy reflected in the budget papers, is for all Commonwealth funding that comes from the three nation building funds for state or territory government projects to come through the COAG Reform Fund. Another set of funding flows will go to the states and territories through the COAG Reform Fund, and that effectively is funding from the budget to the states or territories associated with what, under the reform of the Commonwealth-state financial framework, are called national partnerships for facilitation or award of nationally significant projects. So those sorts of payments—this is sort of a broad analogy, I suppose—which are roughly akin to the old National Competition Policy payments that existed in the 1990s and earlier in this decade, will also go through the COAG Reform Fund.

The main remaining funding flow from the Commonwealth to the states relates to so-called specific purpose payments. You might be aware that, as part of a COAG reform agenda this year, there has been considerable effort by all jurisdictions looking at reforming the nature of the specific purpose payment flows from the Commonwealth to the states. At the moment those funding flows effectively go from relevant Commonwealth line agencies to relevant state line agencies. Part of the reforms being considered by COAG go to the issue of whether those funding flows should continue in that way and, indeed, they go to the issue of bundling up the many different SPPs into a much smaller number of those. I suppose that all I can say to finish this sort of answer is to note the fact that the Treasurers are meeting on Friday and COAG itself is meeting on Saturday. The main point of that meeting will be to finalise these reforms to the Commonwealth's funding flows to states, especially for service delivery support, which effectively is covered now by SPPs. So those payments are outside the ambit of this legislation.

CHAIR—But will the national performance payments be determined by government and how will they be determined, or will they be determined by the COAG Reform Council?

Mr Willcock—The quantum—how much money—would the Commonwealth make available for national partnership facilitation or reward payments is something that the Commonwealth itself will determine. So, in the case of the so-called national partnership facilitation payments, that would be money that the Commonwealth would provide to the states and territories up-front to facilitate some desired national reform. The national partnership reward payments are after-the-event reward payments; states or territories, having undertaken a national reform, would then be entitled to a reward payment. So, the quantum is determined by the Commonwealth.

CHAIR—What do you mean when you say 'the Commonwealth'?

Mr Willcock—The Commonwealth government, by ministers. Ministers will effectively determine how much money, having regard to government priorities and budget circumstances, it would wish to set aside to make these sorts of payments. The particular thing that might be the subject of a reward payment, for example, will then be the subject of discussion between the Commonwealth, the states and territories. The aim would be to reach agreement on what the nature of the reform is and what the performance benchmarks or reform milestones would be that states would have to satisfy to access those reward payments, so that they know up-front what it is—what the hurdles or tests are—that they would need to satisfy before being eligible.

The COAG Reform Council would perform the role of being an independent assessor of each state or territory's performance against those performance benchmarks. The COAG Reform Council would then report to COAG on each state and territory's performance against those benchmarks to effectively say the states, or these particular states, have indeed satisfied the performance benchmarks that have been set out in the agreements. That can then be taken into account before the Commonwealth would authorise payment of those rewards.

The amount is determined by the Commonwealth. The actual payment of, especially the reward which is after the event rather than the up-front facilitation payments, is still something that—and this mirrors the NCP arrangements of before—is to be determined or decided by Commonwealth ministers, but it is with the advice of this independent assessor which obviously is a way of ensuring that the Commonwealth acts with input from an independent agent that is able to provide them with advice on compliance.

CHAIR—Right.

Mr Willcock—I am sorry. That was a very long answer.

CHAIR—That was a good answer, thank you. It answered my question more than adequately. Senator Ludlam?

Senator LUDLAM—With regard to the COAG Reform Council, can you tell us a little bit about the make-up of the council such as who is on there and what the representation will be?

Mr Willcock—The COAG Reform Council is within the Commonwealth and it is mostly handled by the Department of the Prime Minister and Cabinet. It is a creation of COAG itself, so it is a multijurisdictional or multigovernment body to provide advice to COAG on particular issues which COAG tasks the CRC to do. So, within the Commonwealth, PM&C handles or advises the government on issues to do with the structure and the membership of the COAG Reform Council. This is now general knowledge or what I understand rather than me talking as a technical expert on the issue. The COAG Reform Council comprises, say, four, five or so members who are drawn from various states, et cetera; for example, the current chair of the COAG Reform Council is Mr McClintock. There is another member who is currently chair of the WA Chamber of Commerce. So, there are different people from different jurisdictions and different parts of the community sector who are part-time members and then the council is supported by a full-time secretariat.

Senator LUDLAM—Out of the Department of the Prime Minister and Cabinet?

Mr Willcock—The secretariat is actually based in Sydney and I am aware of the fact that it has been staffing up over the year. As COAG has been meeting through the year it has from time to time been making decisions about the role and function of the COAG Reform Council and, having regard to its role and function, I know it has been advertising and recruiting people. It is based in Sydney and it is effectively undertaking its own recruitment action, but certainly the Commonwealth agency responsible for advising the Commonwealth government on issues to do with the CRC, its role, et cetera, is the Department of the Prime Minister and Cabinet.

Senator LUDLAM—This is probably in the public domain but since we have got you and your expertise here I will ask you anyway. What about council's reporting obligations to the parliament?

Mr Willcock—I do not have that information. I could not tell you.

Senator LUDLAM—That is all right. Perhaps we will ask them. I am interested perhaps in pursuing the reward payments idea and just to get clear about that because my understanding of the way the competition policy payments worked was that states were benchmarked against certain competition requirements and then payments were made or not. For example, with the Building Australia Fund, one of the criteria that the Infrastructure Australia board is required to take into account is climate change. With regard to one of the overarching objectives around climate change would you see that reward payments could be disbursed to states on the basis of meeting those sorts of benchmarks?

Mr Willcock—When it comes to the design of a so-called national partnership reward arrangement, it is effectively up to the Commonwealth to decide on a case-by-case basis what particular projects, issues or activities it wants to put some money behind, how it structures the reward arrangement and then to engage with the states and territories to say, 'This is what we had in mind. This is what we would like to do', and I would imagine there would be a negotiation process. I put it in these terms, not so much because it is hypothetical, but because in fact these arrangements are not yet in place. The whole concept of national partnership reward payments is something that has arisen during this year of discussion in COAG about

reforming Commonwealth-state financial relations. Therefore, it is something that will come to a head or get decided and finally considered by COAG this weekend, so I cannot point to particular reward payment arrangements.

Senator LUDLAM—We are setting up a mechanism but it is still too early to talk about what kind of incentives would be put in place and on what policy grounds?

Mr Willcock—Certainly, the intention is that the reward payment arrangements be ones whereby the Commonwealth can provide financial assistance to the states and territories to help drive desirable national reforms. Unlike the NCP arrangements, these would not be limited simply to market structure or regulatory reforms. They can also be reforms that would apply in the area of state service delivery responsibilities, so they could apply in areas such as health provision, hospitals, disability services, housing, schools or whatever.

It is also possible, though, for these reform or reward payments to be available in areas that are much closer to the traditional NCP world. For example, there is a COAG business regulation and competition working group that is looking at the scope for doing more reform in areas that relate to business regulation and competition. The whole agenda of a seamless national economy is being pursued by the Commonwealth and the states through that sort of process. It is quite possible that the Commonwealth might seek to promote and pursue that reform agenda through the use of targeted reward payments.

Senator LUDLAM—I just want to come back to the way the council is going to operate because obviously this is quite a very important oversight role that the council is going to be performing on the spending of a lot of public funds. The bills digest that our friends in the library put together for us basically says it is unclear how that council is going to operate and make decisions on these funds. So, when would you expect there would be a bit of clarity, given the importance of the function that that council is going to be undertaking? When are we going to know how it will be operating?

Mr Willcock—I hope this assists the committee in its consideration of these bills. I would like to try to draw my response to your question back to the COAG Reform Fund Bill itself. That being the case, the element of the work of the COAG Reform Council that is most relevant to the bill relates to that aspect which involves the channelling of money, effectively Commonwealth budget money, to states or territories in relation to these national partnership reward payments. In other words, it does not relate to the Nation Building Fund aspect of the bill. In that context, as I mentioned earlier, for each and any individual national partnership reward payment, the Commonwealth and the states and territories will negotiate on what any individual partnership will be directed at: what the nature of the reform activity is, what the performance benchmarks or milestones that states and territories would need to comply with or get to as a trigger for eligibility to access the reward payments.

When the Commonwealth is dealing with its counterparties, which is the Commonwealth and the states, in negotiating any particular national partnership, the parties themselves will have to agree on what it is that is being done, how state performance can be assessed and measured and what are the tests that the states have to pass to access the money. So, we would say effectively on a case-by-case basis it will become clear then what it is that the COAG Reform Council will be assessing in a particular area. There is the transparency to the state and territories about what it is that they have to do to get the money.

Senator LUDLAM—I am wondering, from the point of view of the parliament, will those tests for those criteria be public or will a result just fall out at the end?

Mr Willcock—I have no reason to believe that the national partnership agreements would be kept secret; quite the contrary. I would imagine that indeed it would be in the Commonwealth and state and territories' interest to make very public what it is that they are agreeing to do and what benefits they hope to see result for the wider community as a result of them agreeing to undertake reform action and what the benefits in terms of a funding flow from the Commonwealth to the states would be if individual states managed to undertake the reform.

Senator LUDLAM—That is a very clear answer. Finally, in the broadband hearings in the last couple of months there was reference made to the best practice guidelines for public-private partnerships and I was going to put this to finance, but I might ask you. Are you aware of where that is within the COAG process and will we be making reference to it as these funds are disbursed?

Mr Willcock—No. I am sorry. I would have to either take it on notice or, more sensibly, defer to our colleagues from finance. That sounds right up their alley.

Senator LUDLAM—Thank you.

CHAIR—Senator Furner?

Senator FURNER—I want to deal with the expectations of the rollout of the funds in terms of this particular bill. In part you have answered Senator Ludlam's question about that to some degree. I am wondering what expectations the department would have, given the current situation we are in, and how soon we can get that funding rolled out?

Mr Willcock—Effectively, that really takes us back to the operation of the three principal funds—the BAF, the HHF and the EIF—and how those funds operate. I will just repeat that that is a question really best directed to the department of finance.

CHAIR—Senator Bushby?

Senator BUSHBY—First of all, according to our agenda, Mr Tunny and Mr Green are from the Government Investment, Risk and Debt Policy Unit. Is that correct?

Mr Tunny—That is right.

Senator BUSHBY—So we can ask you questions about the investment mandate and things like that?

Mr Tunny—I think those questions would be best put to department of finance as the bill is their minister's bill.

Senator BUSHBY—I understand that Mr Willcock and Ms Purvis-Smith are from the State Finances and Reporting Unit so that makes sense in terms of COAG Reform Bill, but what is the involvement of your Department of Risk and Debt Policy Unit with this if it is not to do with the investment of the funds?

Mr Tunny—We advise on issues of government investment, risk and debt policy to the Treasury ministers and we have advised on the funds and the setting up of the funds and we have been consulted by our colleagues in other agencies at various times.

Senator BUSHBY—What aspects of setting up the funds have you advised on?

Mr Green—We have worked with finance on some of the development of the legislation and some of the aspects of that but largely finance has been taking a lead and driving the process and we have been working with them on that.

Senator BUSHBY—Have you done any modelling on the economic impact of the spending?

Mr Tunny—We have not in our area.

Senator BUSHBY—Are you aware whether Treasury has undertaken any modelling on the impact of the spending?

Mr Tunny—I am not aware. No, we do not think there has been any.

Senator BUSHBY—Take it on notice.

Mr Tunny—We can take it on notice.

Senator BUSHBY—And do so quickly, because we have got a pretty tight reporting date.

Mr Tunny—Yes.

Senator BUSHBY—I will come back to Mr Willcock. It all sounds very complicated and I know we are talking about a lot of money and we need to make sure we manage it well and spend it wisely but why, given all the other funds that we are setting up, do we need a COAG Reform Fund at all? Could the money not be just paid out of normal appropriation bills or directly from the infrastructure funds themselves?

Mr Willcock—I am sorry I made it sound complicated. I think that reflects on my communication as much as anything else. I think the principal reason for the existence of the COAG Reform Fund effectively is a matter of transparency. It provides a mechanism for the channelling of these funding flows through a single pipe to the states and it therefore ensures that we do indeed know exactly what is going to the states in these particular areas out of these three funds and out of the Commonwealth budget for these other reform payments.

Senator BUSHBY—Is it actually a physical fund or is it an accounting mechanism that gives you that effect basically of being able to see in a transparent way where the money is going?

Mr Willcock—I am not sure about a physical fund versus anything else, but it effectively is an account as the extrinsic aids set out, so it is an account from which money is paid. We certainly do not, for example, anticipate that the COAG Reform Fund would have large ongoing balances or monies to be invested, et cetera,

for long periods of time. We anticipate a process where the funding will come into the COAG Reform Fund from the BAF, et cetera, or indeed direct from the budget, and then would flow.

Senator BUSHBY—So, it will not be sitting in there being invested in accordance with the investment mandate in the long term?

Mr Willcock—No.

Senator BUSHBY—It is a short-term thing?

Mr Willcock—Yes.

Senator BUSHBY—Is there any limit on how much it can actually hold at any one time?

Mr Willcock—I do not believe so.

Senator BUSHBY—Depending on the proven need for the money to be invested through the fund or through the council, it may vary up and down as required.

Mr Willcock—For example, or at least as a potentially typical transaction, if under the governance arrangements and legislation that regulates the Building Australia Fund there is a particular piece of physical infrastructure that it is decided should be funded with funding from the Building Australia Fund and that is to be done through a state or territory government, then the legislative provisions and the governance arrangements applying to the Building Australia Fund regulating the making of that decision will be the ones that will apply. The decision having been made, for example, that X million dollars is to go to Tasmania for some desired piece of infrastructure—

Senator BUSHBY—Good to see; the more money for Tasmania, the better.

Mr Willcock—Sorry, to whichever state, it would then come from the Building Australia Fund and literally pass through as a way of ensuring that we are tracking, in aggregate, the Commonwealth funding flows for these purposes to the states.

Senator BUSHBY—Will the drawing rights for the COAG fund be included in the annual appropriation bills each year like the nation building funds or is the process that you described a separate one that removes it from that?

Mr Willcock—My colleague is helping me out by saying that the issue of drawing rights really goes to the primary funds: the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund. For example, we do not know out of any of those funds at this stage how much of the funding will go to state or territory governments to support projects that relate to the mandates of those three funds versus going to projects that the Commonwealth itself might be wishing to undertake.

Senator BUSHBY—That raises another question. The Australian government has got lots of money that it spends on all sorts of projects. What is to stop the federal government from placing some of those funds into this account or into this fund to then pass on to the states for purposes other than infrastructure or, more specifically, money from the three funds in there which then is spent on purposes other than infrastructure?

Mr Willcock—That question goes to the operation of the Building Australia Fund, et cetera. It goes to the issue of the government's arrangements under legislative requirements applying to the operation of those three funds. Firstly, you would need to get the money out of those three funds, so I am assuming that the money will come out of those three funds in a way which is consistent with the legislation, et cetera, that applies to the operation of those funds, and the department of finance is better placed to answer those questions.

Senator BUSHBY—Other than the money that comes from the funds, that could presumably be put into the COAG fund as well? You were talking before about reward payments and things like that.

Mr Willcock—Yes. There are two types of funds that can flow into the COAG Reform Fund before they flow out to the states and territories. Apart from the capital funding that can flow from the three nation building funds, funding can also go into the COAG Reform Fund from the Commonwealth budget to make national partnership reward payments to the states.

Senator BUSHBY—You mentioned that before. The spending of the money in the nation building funds is referred by the audit office in that it has got to be very closely monitored with lots of evaluation criteria, et cetera. The money that you have just mentioned then going into these funds, does it have the same degree of rigour in terms of evaluation criteria and how that is spent or is that a little bit more in the discretion of the government?

Mr Willcock—I could not answer that question because it would assume that I knew what the arrangements applying to the Building Australia Fund, et cetera, are and therefore make a comparison between those arrangements and the arrangements that will apply to the national partnership arrangements. The arrangements that will apply to the national partnership payment schemes for these reward payments effectively will involve, as I mentioned earlier, consideration by government of what national reforms it wishes to pursue with the states and territories. The government will clearly have regard to what it can afford, given budget circumstances and its other spending priorities, to direct to these national partnership payments. Having decided that it is willing to put some money into or provide incentives to the states to drive some reform activity, the processes then will involve, as I mentioned earlier, a negotiation with the states and territories about what the reform activity is, how the community with a proxy there for the community of the COAG Reform Council, and governments themselves, can assess the performance of the states and territories in progressing towards the achievement of those desired national reforms.

Senator BUSHBY—Are there any reward payments for productivity improvements?

Mr Willcock—As I mentioned, there are no national partnership reform arrangements in place at the moment. That is an element of the Commonwealth-state financial framework reforms that COAG has been discussing this year and that will come to a head or be finally considered by COAG this year on the weekend.

Senator BUSHBY—Coming back to what can go into the COAG Reform Fund, essentially you say there is a number of different ways it can get in there.

Mr Willcock—There are two ways.

Senator BUSHBY—Two different ways. It is quite clear how the money coming from the nation building funds gets in there. You have mentioned in some detail how it gets in through the other way but in plain language, in the way that a layman could understand, is there an effective limit on the government being able to put money into that fund?

Mr Willcock—Budget constraints.

Senator BUSHBY—Budget constraints are really the only effective limit? If it chooses to, and depending on discussions it has with states, it could put as much money as it was physically able to into that account? There is no legislation or limit limiting what the purposes it could make?

Mr Willcock—No.

Senator BUSHBY—I have one final question which may be a question for finance. Is anybody at the table able to answer the question of whether the money being spent from the funds will impact on the budget bottom line and, if so, how?

Mr Green—I can answer that one. Money that is spent from the funds will impact on the bottom line.

Senator BUSHBY—In what way? How will that translate into the budget bottom line?

Mr Green—It depends on exactly what the expenditure is being made for and the form of the payment. Once we get into that level of detail and how, again, that is a question better directed to finance. I apologise for jumping in.

Senator BUSHBY—Because you have the relationship with the states, I have a further question. A lot of the infrastructure, for example roads and bridges, has a very long lead-in time. I have asked questions at estimates of the department of transport about bridges and roads in Tasmania and I am told, 'Well, you know, in six months' time we are doing this and in another 12 months after that we will be doing this.' It is a period of what seems like a couple of years before you have any chance whatsoever with some of these larger infrastructure projects having a sod even being turned by the time you have had agreements with states, put out tenders to contractors and got planning approvals and done all the necessary things. With a lot of this infrastructure it seems to me that the time lines cannot really be brought forward without actually sacrificing the veracity of the things you need to go through first. Is that something that you would agree with?

Mr Willcock—It is something that I have absolutely no knowledge or expertise in. That seems to me to be a question that relates to the operation of the funds which, as I explained, is best put to finance.

Senator BUSHBY—That is fine.

Mr Tunney—Could I just add something please? Adding to Mr Green's answer there, I understand there is an amount in the contingency reserve for the funds and so it depends on the difference between the amount spent and what is in the contingency reserve.

CHAIR—This is back to the question on the budgetary—

Mr Tunny—Yes. The government has provisioned already for the presumed rollout of the money so the ultimate impact will depend on any variations from what has already been provisioned. So, if it rolls out at the rate it has been provisioned for, then there would not be an impact.

Senator BUSHBY—Are you able to make any comment on whether that is just out years or just this year?

Mr Tunny—No.

CHAIR—I would like to thank Treasury for coming in tonight.

[7.32 pm]

BENNETT, Mr Shane, Acting Branch Manager, Funds Branch, Department of Finance and Deregulation

CAMPBELL, Ms Kathryn, General Manager, Financial Management Group, Department of Finance and Deregulation

GREENSLADE, Mr Alan, Division Manager, Funds and Superannuation Division, Department of Finance and Deregulation

CHAIR—Welcome this evening. Do you have an opening statement that you wish to make?

Ms Campbell—No, we do not have an opening statement.

CHAIR—We have all referred to the complexity of the bills and we all stand to be corrected on the structure, but on my account there is a COAG Reform Fund, a COAG Reform Council, a Future Fund Board, a Future Fund Agency and the advisory board for each of the three different funds that are going to be set up, so it is a very complex structure. Can you explain why it needed to be so complex?

Ms Campbell—The structure involves ensuring that there is appropriate governance arrangements around the decision making and the recommendation from expenditure from the funds, as well as allowing a level of transparency through the financial statements of the various portfolio agencies of the expenditure that goes through each of those funds and into each of the areas of expenditure. The structure was developed to ensure that there was that level of accountability, governance and transparency and that is why it is a structure with many elements.

CHAIR—I suppose you are using the existing COAG Reform Fund and the existing Infrastructure Fund to some extent. When you are talking about it being transparent and the governance structure as being good, my concern is that it might be good for the people in the department to understand it, but it might be difficult for people outside the structure to understand it. I am wondering how much the community will see of what is happening if they are interested?

Ms Campbell—Because each of the funds has a different purpose for what the expenditure is available for and some of the funds like the Building Australia Fund have a number of purposes, the structure is organised to ensure accountability to relevant ministers and to transparency in that particular portfolio. If we take, for example, the Health and Hospitals Fund, that allows the governance arrangement with the advisory board advising that portfolio minister and that the expenditure coming from that, through that special account through that Health and Hospital Fund, so that all of that expenditure is in that one place and is governed and accountable by that one minister.

CHAIR—I would like to go to the question that I asked previously about the situation with the changed amount that is expected to be in each fund, that is the difference between the budget estimates and the mid-year economic forecasts in view of the changeable financial system we have got around the world. I know that is very general, but can you give some comment on the effect that will have on the various funds and how quickly they will be able to get up and running with substantial projects?

Ms Campbell—The bill before the parliament indicates that there will be some \$26.3 billion credited to the funds by 1 July 2009. The government considers that is a significant amount of money that allows for a considerable amount of infrastructure to be developed in those areas. The government ministers have also indicated that further credits to the fund will depend on the financial circumstances and the priorities of the government at the time.

CHAIR—Is the government accelerating the use of the funds in view of wanting to stimulate the economy to some degree and will that have an affect on the medium- and long-term functioning of the funds?

Ms Campbell—I will hand over to my colleague, Mr Greenslade, who will be able to talk more about the interim arrangements that are proposed as part of the stimulatory package.

Mr Greenslade—I believe you are referring to the Prime Minister's announcement on 14 October when he announced the fast tracking of the nation building agenda to help shield Australians from the global financial crisis. As a result of that, there are arrangements adopted on an interim basis in the bill that enable spending to commence from 1 January for funds that have been assessed before then.

CHAIR—Will that have any affect on the medium- and long-term use of the funds, or do you expect that the surpluses will continue to be put in the fund as expected?

Ms Campbell—The government has indicated that these will be decisions taken as conditions play out and as surpluses are available and, with other competing government priorities, decisions will be taken at those times.

CHAIR—Senator Bushby.

Senator BUSHBY—I have a number of questions for Finance. Thank you for coming along. How much did the last federal government spend on infrastructure? You may need to take this on notice, but I would be interested in the detail in the seven areas of energy, transport, water, communications, education, research and health including, Auslink funding.

Ms Campbell—I do not have that information with me and it may require some time to collect that information from various sources.

Senator BUSHBY—I am aware that we have a very short deadline and you may not be able to meet that deadline for our report, but I would appreciate if you could take it on notice.

Ms Campbell—Yes.

Senator BUSHBY—What involvement will you have in each project that is proposed? Will you be required to cost each project as you do for other government policies?

Ms Campbell—Each project will be subject to evaluation by the independent advisory body to the portfolio ministers. Those portfolio ministers will then bring forward projects as part of the budget context. The Department of Finance and Deregulation does have a costing function and those normal processes will continue, but they will be advised by the processes coming forward. With our current costing processes, proposals are brought forward to us costed by agencies for review.

Senator BUSHBY—Will you continue your normal practice in terms of costing?

Ms Campbell—That is not my area of expertise.

Senator BUSHBY—No, but your expertise is the funds and how they will be approached. Are you aware of anything that would suggest that normal costing practices of your department would not be continued in respect of projects under these funds?

Ms Campbell—These projects will be considered as part of the normal budget context, which is reviewed by our budget area.

Senator BUSHBY—Is there any provision for borrowing to fund infrastructure under these funds?

Mr Greenslade—The fund's legislation provides provision for amounts to be credited. The government has announced that it is subject to future budget surpluses. The funds allow money to come in through a crediting provision. It does not deal with the source.

Senator BUSHBY—If the government independently borrows money, it could then be credited to these funds?

Ms Campbell—The legislation allows simply for the crediting.

Senator BUSHBY—What is the estimated deficit of infrastructure funding for the government at the moment? What is the shortfall that currently exists in terms of the need for infrastructure and the ability to fund it?

Ms Campbell—That type of question is probably best directed to the infrastructure department or the infrastructure portfolio.

Senator BUSHBY—Do you have any information?

Ms Campbell—I do not have that information.

Senator BUSHBY—Do you know whether any audit has been done of Australia's infrastructure?

Ms Campbell—I understand that Infrastructure Australia is doing work in this regard, but I am not aware of the outcome of that information.

Senator BUSHBY—Has the department undertaken any modelling to determine the impact of the spending on infrastructure on productivity or economic growth?

Ms Campbell—The government indicated as part of the budget process when these projects came forward for spending from the funds that macroeconomic conditions and the impact on the entire budgetary process would be considered in the budget context. There has been no modelling to date, because there have been no projects brought forward to date.

Senator BUSHBY—We talked about costing. How do you cost similar projects now? What is the process that you go through to do the costing on those?

Ms Campbell—I am no longer a budget group officer so I do not have current up-to-date costing experience. We could take that on notice and provide you with more details, rather than me trying to answer it.

Senator BUSHBY—Senator Hurley asked some questions about the ability to bring forward infrastructure, and Mr Greenslade responded to that in referring to the statement by the Prime Minister on 14 October. It is fine to say that the money is there, but as I mentioned to the previous witness some of these large infrastructure projects take some time to actually put in place. You can give them as much money as you like, but it is still going to take some time to go through the necessary due diligence and planning to make sure that what you are putting in place is a sound infrastructure project. It can take some years before you start spending real money and actually build it. Have you looked at all at the ability to bring forward projects in a physical sense, as opposed to being able to provide the money?

Ms Campbell—I am just referring to the evaluation principles.

Mr Greenslade—The first point is that any projects being fast-tracked will essentially be subject to the same framework that we were discussing earlier on in terms of evaluation criteria, going through a process of assessment, and the other controls outlined in the legislation. The extent to which monies can be spent quickly and settled will be part of the assessment process, which will be undertaken when those projects are assessed by interim advisory bodies. Again, it is against evaluation criteria.

Senator BUSHBY—As a department, you would want to ensure that the money being spent is well spent, and that is why you have all the evaluation criteria. I would presume you would not want the process that it has to go through for infrastructure projects to be undermined in any way to make it shorter. You still want to see it all done properly?

Ms Campbell—Yes.

Senator BUSHBY—Effectively, putting the money there means that there is a certainty that projects will proceed, but it does not necessarily shorten the time that the project will actually take once you start planning it to actually delivering it?

Ms Campbell—One of the principles in developing the evaluation criteria is that the projects demonstrate that they achieve established standards in implementation and management. There is that requirement that the projects are viable.

Senator BUSHBY—I asked the previous witness this one as well. What is the need for the COAG Reform Fund if we already have the other funds in the annual appropriation bills? Why do we have a need for a COAG Reform Fund as well?

Ms Campbell—My answer will be very similar to Mr Willcock's answer, which allows the transparency of the monies going to the funds through the COAG process to be going through one place. It is again that accountability, as we talked about before, with one minister and one set of statements indicating the quantum of money going through there.

Senator BUSHBY—By drawing it into one channel you also cloud in terms of what the different departments are actually spending in respect of each of the states. You lose the ivory towers, in a sense, that make it clearer where it is going.

Ms Campbell—You would get both. For example, if you had some expenditure from the Health and Hospitals Fund it would be recorded in the Health portfolio as funding going through there and then it would go into the COAG Reform Fund and be recorded in Treasury's accounts as monies going to the states through the COAG process.

Senator BUSHBY—As we heard from a previous witness, other than fiscal limits there is no effective limit on what the government could actually put through the COAG fund into the states. That could be a vehicle for clouding where money is going.

Ms Campbell—The drawing rights from what we call the three—

Senator BUSHBY—I am talking about the COAG Reform Fund here.

Ms Campbell—Yes. The drawing rights are the amounts that come out of the Building Australia Fund. The amounts that comes out of the Building Australia Fund, including the amounts that goes into the COAG Reform Fund, are governed by those drawing rights.

Senator BUSHBY—That is the money that comes from those three funds. We have heard that there is also an alternative route that money can go into the COAG Reform Fund, and that is really only limited, to quote loosely the previous witness, ‘by the size of the budget’.

Ms Campbell—Normal budget processes would apply in that regard.

Senator BUSHBY—That is not as rigorous as what we are setting up here with these nation building funds.

Ms Campbell—The government goes through a comprehensive and rigorous process in budgeting. There are, of course, appropriation bills that are put before the parliament.

Senator BUSHBY—I asked before about drawing rights that would be associated with the three nation building funds, which require an appropriation. Why would the drawing rights for the COAG Fund not be included in the annual appropriation bills?

Ms Campbell—We are just clarifying the mechanism for putting money from the budget into the COAG Reform Fund. This is not our legislation, I am afraid, so we are not quite as across it as we are with the other stuff. We can clarify how the funds go from the budget into the COAG Reform Fund. We can come back to the committee on that.

Senator BUSHBY—I asked this question of the previous witnesses as well. Will money spent from the funds impact on the budget bottom line and, if so, how?

Ms Campbell—It depends on the nature of the spending. Any expenditure grants for projects to the states have an underlying cash impact. If it is an investment in a financial instrument that may not have an impact because we are just transforming one asset into another—cash into a financial asset—and that may not have an impact. Those individual transactions are on the underlying cash.

Senator LUDLAM—Treasury suggested that I should put my question to you about the best practice public-private partnership guidelines that were meant to have fallen out of COAG by now.

Ms Campbell—We understand that Infrastructure Australia issued those on its website in October of 2008.

Senator LUDLAM—Most of my questions will go to the Building Australia Fund, rather than the others, but will the board of that fund be required to take those guidelines into account when assessing projects? Is that the intention?

Ms Campbell—The Department of Finance and Deregulation is primarily responsible for setting up the principles and the investment funds. The evaluation criteria that are conducted by Investment Australia are a matter for Investment Australia and the portfolio minister. The principles do take into consideration other viable forms of funding that are available, and PPPs is one form of infrastructure funding, so my expectation is that they would be considered.

Senator LUDLAM—Is there a reason why the evaluation criteria are not in the legislation?

Ms Campbell—The evaluation criteria are being developed over time in consultation with the boards that are being established to provide advice on them. The evaluation criteria are going to be put before the parliament as disallowable instruments.

Senator LUDLAM—The parliament is being asked to debate the legislation in absence of those criteria? We are running fairly short of sitting days. Is it your suggestion that we would be able to see those before the legislation is debated?

Ms Campbell—The interim evaluation criteria have been put on the websites of the Health Department and the Education Department, but the actual evaluation criteria going forward, with the principles that will underpin those evaluation criteria, are mentioned in the explanatory memorandum to the legislation, in particular on page 64. The fact that they will be disallowable instruments does provide the parliament with a level of transparency.

Senator LUDLAM—Disallowance is a pretty blunt object. I am wondering why they would be put in the regulations?

Proceedings suspended from 7.51 pm to 8.01 pm

Senator EGGLESTON—Some observers are critical of the lack of legislative attention to performance benchmarks, performance criteria, determinations of the levels of national partnership award payments, current reform council powers, and so on. They suggest that such important matters should be more transparent. What is the department's response to that suggestion?

Ms Campbell—The Department of Finance and Deregulation does not have responsibility for the COAG reform matters, so I will not comment on those. We consider that the disallowable nature of the instrument that will detail the evaluation criteria does provide a level of transparency to the parliament on how the projects will be assessed, and the independent bodies who will provide advice, and ministers having regard to that advice, is quite a strong governance model within the current legislation.

Senator EGGLESTON—The government also stated proposals for funding will be rigorously scrutinised by independent bodies. However, the Nation Building Funds Bill indicates that the advisory boards principally advise the portfolio ministers and apply evaluation criteria, which are determined by a number of ministers. It could be argued that there is little independence in the process. What would you say to that?

Ms Campbell—As we said, the evaluation criteria would be put before the parliament as disallowable instruments. The independent bodies would then assess projects against those criteria and then provide a recommendation to the portfolio minister. The portfolio minister takes that advice into regard and can only authorise payment from the funds in accordance with that advice.

Senator EGGLESTON—As to where you invest, could the Commonwealth invest in state government bonds?

Mr Greenslade—I will just clarify. Do you mean put the funds—

Senator EGGLESTON—Could the infrastructure funds be invested in state bonds?

Ms Campbell—As the purpose of the actual investment?

Senator EGGLESTON—Yes.

Ms Campbell—The investments are up to the Future Fund Board of Guardians, which will be provided with an investment mandate. We expect the investment mandate to be quite similar to the current Future Fund mandate, which provides benchmarks and guidance, and leaves the decision making to the Board of Guardians on where it invests.

Senator EGGLESTON—If you did invest in state bonds would that affect the bottom line of the budget?

Ms Campbell—The Future Fund Board of Guardians makes those decisions independently on what is invested. Because the returns on the fund are within the general government sector, they are included in the government's bottom line.

Senator EGGLESTON—Does that mean all infrastructure spending will be included in the bottom line?

Ms Campbell—Depending on the nature of the infrastructure spending. If the government were to be swapping, for example, cash for a financial asset that may not have an impact. It depends on the nature of the transaction, on the bottom line. With payments to entities outside the government sector, that transaction would have an impact on the underlying cash balance.

Senator JOYCE—I would like to go through the whole structure of the funds. What form is the structure of the funds predominantly held? Is it cash? In what form is the asset that you draw your funds from held?

Ms Campbell—It is envisaged that the cash will be provided to the Future Fund and the Future Fund will invest that money in financial assets.

Senator JOYCE—As in shares?

Ms Campbell—These are decisions for the Future Fund Board of Guardians. It is envisaged that the government will provide an investment mandate providing guidance on the returns expected and the financial assets that they are able to invest in.

Senator JOYCE—Is that possibly shares?

Ms Campbell—These are decisions for the Future Fund Board of Guardians, but an investment mandate has not been finalised yet.

Senator JOYCE—Are shares a possibility? I am not trying to be too distinct here.

Ms Campbell—The legislation allows for the Board of Guardians to invest in equities.

Senator JOYCE—Are you building on funds that are currently in existence?

Ms Campbell—The actual investment process is undertaken by the Future Fund Board of Guardians.

Senator JOYCE—There is a future fund currently in place, is there not?

Ms Campbell—There is.

Senator JOYCE—Does that future fund have investment in shares?

Ms Campbell—I understand that the Future Fund Board of Guardians has indicated that is the case, yes.

Senator JOYCE—What proportion of that fund is invested in shares?

Ms Campbell—I do not have that data with me tonight.

Senator JOYCE—Can you take that one on notice?

Ms Campbell—We can take that on notice and see whether we can get that for you.

Senator JOYCE—When was the last time you did an evaluation on the fund, determining exactly what the value was in that fund?

Ms Campbell—The Future Fund Board of Guardians provided their annual report as at 30 June and October of this year.

Senator JOYCE—You will be aware that a lot of things have happened in the market before 30 October and in fact it is happening all the time. How often do you anticipate to update the value of that fund?

Ms Campbell—I understand the Future Fund Board of Guardians issues quarterly an update on the valuation of the fund.

Senator JOYCE—When was the last public disclosure of the value of that fund?

Ms Campbell—30 October.

Senator JOYCE—What date was that evaluation based on?

Mr Greenslade—It reports on its performance on a quarterly basis, so the last report was 30 September.

Senator JOYCE—Your last reporting of the evaluation of the Future Fund was on 30 October, based on an evaluation determined at 30 September; is that correct?

Mr Greenslade—I believe that is correct, yes.

Senator JOYCE—What was the diminution in that fund between 30 September and the previous quarter?

Ms Campbell—We do not have that detail with us tonight. We could talk to the Future Fund and provide you with that information on notice.

Senator JOYCE—I will cut to the chase. I want to know how much we have lost in the fund by reason of the current reduction in the price of shares?

Ms Campbell—We could give that information to you on notice. We do not have that information.

Senator JOYCE—Why do we not have that information? It is extremely important.

Ms Campbell—We had understood that we were talking about the nation building funds, the nature of the legislation that was before the parliament, and we had come ready to answer questions on that legislation. We did not bring the quarterly movements of the Future Fund with us.

Senator JOYCE—Where do you get your advice as to where to invest funds?

Ms Campbell—The Future Fund Board of Guardians does the investments and they operate independently from the government.

Senator JOYCE—Do they take their advice as people independently or do they take their advice as basically being the result and action of other people behind them?

Ms Campbell—I do not think that I am able to answer that question, because the investments are undertaken by the Board of Guardians.

Senator JOYCE—How many people are on the Board of Guardians?

Ms Campbell—I understand there are seven.

Senator JOYCE—What are their names?

Ms Campbell—We will see if we can get an annual report and we will be able to give you those names. Mr David Murray is the chairman of the Board of Guardians.

Senator JOYCE—Do you have that information now or do you want to take that on notice?

Ms Campbell—We will just get an annual report and we will provide you with that detail.

Senator JOYCE—Do you know whether they use derivatives to protect their positions and whether any of those derivatives are currently on foot?

Ms Campbell—I am unable to answer questions on the operations of the Future Fund. They are the domain of the Future Fund Board of Guardians.

Senator JOYCE—So you have no answer for any qualitative or quantitative judgements that those people make in the marketplace about what they are investing in and why they are investing in those funds?

Ms Campbell—The Future Fund Board of Guardians was established in 2006 by the then government as an independent organisation to invest the money, not directed by the government.

Senator JOYCE—What is the current policy of reinvestment? I am trying to think of a way I can ask this so that you can answer this. Is there any noted policy about the reinvestment of funds?

Ms Campbell—The reinvestment of the funds is a matter for the Board of Guardians. The Board of Guardians has an investment mandate. Guidance on the return expected—

Senator JOYCE—What is the return expected?

Mr Greenslade—They have a long-term benchmark of achieving a return over the CPI of at least 4.5 to 5.5 per cent.

Senator JOYCE—A return over the CPI of 4.5 to 5.5 per cent?

Mr Greenslade—In addition, yes.

Ms Campbell—That is a long-term return.

Senator JOYCE—We are in an inflationary period. The CPI is currently around five percent, so your current guidelines would say you would be looking at around a 10 per cent return?

Ms Campbell—That is the long-term return expected of the fund.

Senator JOYCE—How is it tracking in the short term to the long term?

Ms Campbell—The fund has only been established since 2006. We will see whether we can get the returns for the last year.

Mr Greenslade—The information I have to hand is that the return for the 15 months from 1 July 2007, when I think it started to invest more in accordance with its investment policy, was minus 0.24 per cent.

Senator JOYCE—Minus 0.24 per cent over 15 months?

Mr Greenslade—Yes.

Senator JOYCE—That is not really tracking to path, is it?

Mr Greenslade—As Ms Campbell said, the Future Fund Board of Guardians and the Future Fund Management Agency are better able to answer questions of detail, but I would make the point that any comparison one could reasonably make, such as with pensions funds, that it is substantially better performance.

Senator JOYCE—Is that the income return or is that the actual corpus of the fund? Is that the capital amount of the fund?

Mr Greenslade—That is the performance.

Senator JOYCE—I am very interested in the value of the fund now. Is that tracked in there?

Mr Greenslade—As at 30 September it was \$63.4 billion.

Senator JOYCE—Is that the value on 30 September?

Mr Greenslade—That is correct.

Senator JOYCE—On 30 September it was \$63.4 billion. How much has the share market gone down between now and then?

Mr Greenslade—I think you are right in the latter part of your question that it has gone down. I do not know the quantum.

Senator JOYCE—When would we be booking the loss from that \$63.4 billion and where is that going to appear on the budget statements?

Ms Campbell—The Future Fund is obviously an asset of the government. The valuation of the fund will be updated on 30 June for the financial statements of next year. The budget estimates will also include an update on expected valuation and performance.

Senator JOYCE—We are going to credit the asset and we are going to debit the loss. Where is the debit going to go?

Ms Campbell—The performance of the fund, the loss of the capital will appear—

Senator JOYCE—It is \$63.4 billion. I imagine it is only going to worth about \$50 billion. We will be booking about a \$13 billion loss. That is very important in how we determine the final position of the government. I want to know where that money is going to be booked in the financial statements. Are you going to follow AASB 137 or do you have some other ideas about exactly how you are going to deal with that loss?

Ms Campbell—The loss will be dealt with in accordance with accounting standards.

Senator JOYCE—AASB 137?

Ms Campbell—The Australian government uses AASB 1049, which is the harmonised accounting standards with GFS and Gap.

Senator JOYCE—AASB 1049?

Ms Campbell—AASB 1049. We can find some accounting policy expertise and get that answer to you.

Senator JOYCE—AASB 1049 is going to be the process that you use for booking that loss?

Ms Campbell—AASB 1049 is the standard that the government uses for its financial statements.

Senator JOYCE—Under AASB 1049 can you tell us where we are going to be able to see that loss in the budget statements?

Ms Campbell—We can take that on notice and get some accounting policy expertise to be able to provide you with that answer.

Senator JOYCE—Is it envisaged that there will be any process for making up that loss? Do you have a foreshadowed future expenditure of funds, or any determination on the expenditure of funds, that has been premised on the previous valuation of that fund, which now by reason of its diminution, by movements of the stock market, which I do not want for one moment to presuppose that you have any responsibility over, but that being the case do you have any foreshadowed change in what the expenditure of that fund will be used for by reason of the decrease in the value of the fund?

Ms Campbell—The Future Fund legislation established the Future Fund to offset the payments for the unfunded liability for Commonwealth superannuation pensions from either 2020 or when the amount exceeded the unfunded liability.

Senator JOYCE—Is it correct that the unfunded liability was approximately \$120 billion?

Ms Campbell—It was expected to be in that order in 2020.

Senator JOYCE—Now with the diminution of the fund by reason of movements of the share market, by reason of the fund holding shares and choices and action, are you going to show on the financial statements under AASB 1049 that our loss in that fund would probably be only 40 per cent of that contingent liability?

Senator CAMERON—On a point of order—I really do not know where this is going. These questions should be more readily directed to the Board of Guardians of the Future Fund. I do not think it is fair to have public servants answer questions that they cannot answer and have no responsibility for answering.

CHAIR—I was actually wondering about the relevance to our terms of reference. I can see some tenuous connection because we are talking about similar funds, but we are getting into a level of detail that makes it—

Senator JOYCE—It is relevant in that I just want to know what is in the fund at the moment.

Ms Campbell—On a point of order—

CHAIR—I am asking you to start to get back to the terms of reference. I know you want to know the details of the fund, but I do not know that it is relevant under this point of order. I am allowing you to continue on with the questioning, hoping that we will move forward.

Senator JOYCE—I have raised enough questions there. I can look for answers somewhere else. Who is drafting the process of investment management and the structure for the nation building funds?

Ms Campbell—The Department of Finance and Deregulation in consultation with the Treasury will put a draft to ministers and will provide advice to ministers on that. We are seeking expert—

Senator JOYCE—If we were to call before the Senate the person making those decisions, who would we call?

Ms Campbell—When you say ‘making those decisions’ or providing—

Senator JOYCE—Providing the information, making the decisions, working out what to buy, what not to buy, when to sell it and when not to sell it?

Ms Campbell—The Future Fund Board of Guardians would be acting in accordance with the investment mandate provided by government.

Senator JOYCE—With respect to that \$63.4 billion, do you have any substantial shareholdings in any organisations, say, more than five per cent?

Ms Campbell—The Department of Finance and Deregulation does not manage this. The shareholdings are managed by the Future Fund Board of Guardians and they are the only people who can answer those questions.

Senator JOYCE—We have to ask them to come before us to answer these questions?

Ms Campbell—They do come before the Senate committees for Senate hearings.

Senator JOYCE—Will there be any consultation with the relevant stakeholders in any of the decisions that are made in the future?

Ms Campbell—What do you mean by ‘relevant stakeholders’?

Senator JOYCE—The stakeholders being the people who are likely to be affected by where these funds are processed to. Are you talking to the people who you might be likely to spend these funds on? Are you in current negotiations with investment for the nation? Are you in any sort of negotiation foreshadowed into the future where you are speaking to people about certain projects that might be going forward and envisaging funds that may be available for such purpose, and also talking to the people who are making the decisions? For example, you might have a substantial shareholding in a company and you might be about to sell it. Let us go to the front end of the decision. In your decisions foreshadowed as to where this expenditure from this fund might go, have you been part of any discussions as to where this money might be expended and have you taken into your confidence the stakeholders who might be part of that process?

Ms Campbell—The governance model established separates the recommendations on individual projects from the investments that are done by the Future Fund Board of Guardians. The actual investments will be undertaken as proposed by the Future Fund Board of Guardians in accordance with the investment mandate provided. Those investment funds will be managed by the Future Fund Board of Guardians with advice provided by the Department of Finance and Deregulation and Treasury. As to the actual advice and recommendations on the projects to which the Education and Investment Fund, the Health and Hospitals Fund and the BAF are likely to come from, the bodies will report to the portfolio ministers in each of those areas who will have responsibility for the stakeholders and the actual expenditure. They will then bring forward those proposals through the normal budget process for final decision making. In that way the governance separates the investment from the spending.

Senator JOYCE—You expect a return of about five per cent on top of the CPI from the fund. What return are you going to expect on where you actually invest the funds?

Ms Campbell—The previous government had provided that investment mandate. The investment mandate for these funds has not yet been finalised.

Senator JOYCE—What is the investment mandate as you see it now?

Ms Campbell—The investment mandate has not been finalised and therefore has not been put to the parliament.

Senator JOYCE—Could I invest in anything?

Ms Campbell—The legislation says financial assets, but the rate of return has not been finalised yet.

Senator JOYCE—When I take the money out and invest it somewhere else; when I am building the nation?

Ms Campbell—When we are funding a project?

Senator JOYCE—Yes. Where can I invest it then?

Ms Campbell—The evaluation criteria will identify what the funds are available to be invested in. For example, the BAF within the estimates memorandum identifies the overarching—

Senator JOYCE—BAF being the Building Australia Fund?

Ms Campbell—Yes, the Building Australia Fund. It provides four principles under which the evaluation criteria will be developed and laid before the parliament as a disallowable instrument, so there will be a level of transparency.

Senator JOYCE—Is your knowledge of those four principles pretty strong, having oversight over it?

Ms Campbell—The four principles guide the evaluation criteria that—

Senator JOYCE—Is your knowledge of them pretty strong?

Ms Campbell—The principles?

Senator JOYCE—Yes.

Ms Campbell—I know what the principles are.

Senator JOYCE—Could you rule out my investing in a railway line?

Ms Campbell—The principles will then be developed by the portfolio minister and laid before the parliament.

Senator JOYCE—Is there anything that you could advise me that would not be able to be covered by those investment principles?

Ms Campbell—That is a very difficult question.

Senator JOYCE—Could I invest in a road or a roundabout? I am trying to work out whether you can pork barrel an area and still be covered by the fund?

CHAIR—I do not know whether that is a question.

Ms Campbell—The government has indicated that there will be a rigorous set of evaluation criteria. Projects will be assessed against those evaluation criteria and recommendations will be made by an independent body to the ministers.

Senator JOYCE—You know the principles. You just told me that you knew them very well in fact. If I have a road in my electorate and I want to do it up and take the money out of this fund, can I do it?

Ms Campbell—The principles are used to develop the evaluation criteria. The projects will then be assessed against the evaluation criteria. I do not know what the final evaluation criteria are because they have not been laid before the parliament.

Senator JOYCE—It could be possible that I could do that?

Ms Campbell—The evaluation criteria will be laid before the parliament. They will be in accordance with the principles indicated within the explanatory memorandum that went with the legislation.

Senator JOYCE—In your knowledge of the principles you must know whether that is the sort of thing that will be in or out?

CHAIR—Ms Campbell is trying to tell you that this is a disallowable instrument.

Senator JOYCE—I know it is a disallowable instrument. I just want to know whether it is inside the principles.

Ms Campbell—I can read the principles for you, if you like.

Senator JOYCE—Yes.

Ms Campbell—The principles are that a project should address national infrastructure priorities, demonstrate high benefits and effective use of resources, efficiently address infrastructure needs, and demonstrate that a project would achieve established standards in implementation and management.

Senator JOYCE—So I could build a road?

Ms Campbell—Those principles will be fleshed out as part of the development of the evaluation criteria, which will then be laid before the House.

Senator JOYCE—I could build a park.

Ms Campbell—You will have an opportunity when those criteria are laid before the House to determine whether they will meet the questions that you are asking.

Senator JOYCE—Could I spend all the money in one electorate?

Ms Campbell—The evaluation criteria will be put forward to the House. They will be established in accordance with the principles, and they will be a disallowable instrument. Those projects will then be assessed by an independent body against those criteria, and then brought forward in the budget context for final decision making against—

Senator JOYCE—Who selects that independent body?

Ms Campbell—The government appoints the independent body.

Senator JOYCE—Is that a disallowable instrument? Can I disallow one of them?

Ms Campbell—No.

Senator JOYCE—That is a handy little package they have got there. It was \$63.4 billion, but an independent body, which is not really independent, selected by the government and I cannot do anything about it.

Ms Campbell—The \$63.4 billion is the balance of the Future Fund. The Future Fund has quite specific purposes for which the money can be spent, which was established in legislation back in 2005. That is to pay for pension liabilities from 2020 for Commonwealth superannuants that have unfunded benefits. That is the \$63.4 billion. That is what we were talking about in that context.

Senator JOYCE—You are currently about \$70 billion away from your contingent liability. How are you going to cover that gap?

Ms Campbell—The legislation allows for moneys to be taken from that to pay for those superannuation payments at 2020. The estimates will be updated as part of the next budget context.

Senator JOYCE—I did not quite catch the answer. How are you going to pay for that gap?

Ms Campbell—Currently the unfunded liabilities are paid from recurrent expenditure.

Senator JOYCE—Will it just come out of the deficit?

Ms Campbell—The current payments for superannuation payments are part of the current balance. The Future Fund intent was always that that money could be freed up for other purposes to meet demographic challenges in 2020. The government has not updated the likely time when they expect that balance to meet that liability, but as at 2020 the government can draw down from the Future Fund to meet those needs.

Senator JOYCE—Finally, where is the contingent liability of \$70 billion, which is the differential between the prospective \$120 billion which is required—I am working on where the share market is going and that you have approximately \$50 plus billion in your fund—and where is that contingent liability booked on your financial statements?

Ms Campbell—It is booked in the financial statements, because the unfunded liability is booked and the value of the fund is booked. The net worth of the government is calculated as part of that equation.

Senator JOYCE—Will I be able to see that in the deficit?

Ms Campbell—My understanding is that the balance that you are talking about is the underlying cash balance?

Senator JOYCE—I am talking about the diminution of the underlying cash balance and I am working out where that is going to be booked in the balance sheet. Because we are looking at a diminution of around about \$10 billion, and we are approximately looking at a deficit at this point in time of around about \$5 billion, I am saying that what we now have is a deficit budget.

CHAIR—I look forward to your asking these questions in the next estimates session.

Ms Campbell—It is actually the balance of the net worth of the government that we are considering here, which is the value of the assets versus the value of the liability.

Senator JOYCE—I understand that perfectly.

CHAIR—Are there any further questions? It being 8.30, this is a good time to adjourn the committee meeting. I thank the officers of the department of finance for coming in tonight and patiently answering questions.

Ms Campbell—Thank you.

Committee adjourned at 8.31 pm