



Government Response
to the
Senate Standing Committee on Finance and Public Administration
Annual reports (No. 1 of 2008)

Government Response to the Report of the Senate Standing Committee on Finance and Public Administration: *Annual reports* (No. 1 of 2008)

Recommendation 1

The committee recommends that the government implement the committee's updated 2005 recommendations regarding the publication of an annual report on government advertising expenditure.

Responses to updated recommendations 10 to 12 of the Finance and Public Administration References Committee, *Government Advertising and Accountability Report*, December 2005

Updated Recommendation 10

The Committee recommends that the Department of Finance and Deregulation publish an annual report on government advertising, commencing in 2007–08. The annual report should be modelled on the Annual Report on the Government of Canada's Advertising Activities 2003–04. It should include:

- a total figure for government expenditure on advertising activities;
- total figures by agency for expenditure on advertising activities;
- figures for expenditure on media placement by type and media placement by month; and
- detailed information about major campaigns, including a statement of the objectives of the campaign, the target audience, a detailed breakdown of media placement, evaluation of the campaign including information about the methodology used and the measurable results, and a breakdown of the costs into 'production', 'media placement' and 'evaluation research'.

Response

Agreed in principle. Following the introduction of new advertising guidelines in July 2008, and updated guidelines in March 2010, Finance has published five reports related to campaign advertising expenditure.

Three of these reports were Half Year Reports on Campaign Advertising by Australian Government Departments and Agencies, covering media expenditure costs for campaigns that ran during the first six months of a financial year (from 1 July to 31 December). The first report was tabled in March 2009.

The remaining two reports were Full Year Reports on Campaign Advertising by Australian Government Departments and Agencies, covering both direct campaign advertising expenditure and associated indirect expenditure such as campaign research, consultancy services and other costs. The Full Year reports provide a summary of individual campaigns in terms of target audiences and campaign objectives. Full Year Reports cover the period 1 July to 30 June in each financial year and the most recent was tabled in October 2010.

Updated Recommendation 11

The Committee recommends that from 2007–08, the annual reports of each government agency must include:

- a total figure for the agency's advertising expenditure; and
- a consolidated figure for the cost for each campaign managed by that agency.

Response

Agreed in principle, but at a whole of government level. This recommendation will be delivered as Finance publishes whole of government biannual reports on Campaign Advertising by Australian Government Departments and Agencies.

Updated Recommendation 12

The Committee recommends that from 2007–08 the annual reports of each government agency must include:

- a total figure for departmental expenditure on public opinion research;
- a breakdown of the type of research, including the expenditure on research for advertising as a percentage of total research costs;
- highlights of key research projects; and
- a listing of research firms used by business volume.

Response

Agreed in part. The full year report on campaign advertising includes information on the campaign research costs, the research firms involved as well as other campaign related costs.

Recommendation 2

The committee recommends that the government comply with the Senate Order relating to agency advertising and public information projects of 29 October 2003.

Response

See response to Recommendation 1, in particular, the response to updated Recommendation 10 of the Committee's 2005 Report.

Recommendation 3

The committee recommends that Centrelink review its current outcome and output structure with a view to their modification to better reflect the comprehensive nature of Centrelink's operations and functions.

Response

The recommendation is superseded by the review of financial structures in the lead up to integration of the Department of Human Services.

Recommendation 4

The committee recommends that the Australian River Company Limited provide the committee (on a confidential basis if necessary) with a written explanation as to:

- what issues have prevented the completion of the deliberations;
- when the Australian River Company expects the deliberations to sell the company will be finalised; and
- why it has not been possible to wind up the company on a commercially supportable basis since May 2002.

Response

The Australian River Co. Limited (ARCo) was created to hold the residual assets and liabilities of the Australian National Line group (ANL), formerly the Australian Shipping Commission, which were not able to be included in the Government's sale in 1998-99 of most of the ANL operations.

Since May 2002 ARCo has operated under a 'charter' from the Government (represented by the Minister responsible for the 'Finance' portfolio) to manage the remaining operations of the company with a view to winding it down at the earliest opportunity on a commercially supportable basis, including the pursuit of any sale opportunities.

In 2004-05 the then Board was able to complete the sale to Patrick Shipping Pty Ltd of two 'roll on / roll off' vessels operating across the Bass Strait. The net profit on the sale of approximately \$2.3m was paid to the Commonwealth as a dividend. SeaRoad Holdings Pty Ltd continues to operate these vessels between Melbourne and Devonport.

A wind down of ARCo's remaining operations must deal with two separate and largely unrelated aspects of the residual assets and liabilities. In both cases characteristics which would have influenced the original exclusion from a commercial sale remain relevant.

The first aspect is the appropriate future management of insurance settlements for ARCo's ongoing legal liability to former employees of ANL for the period 1946 to 1997. The ARCo annual report for the year to 30 November 2010 shows a gross provision for these claims of \$18.9m based on an annually updated actuarial review of the company's claims exposure going forward. When ARCo's insurance arrangements are taken into account, the net provision reported in November 2010 is an estimated \$3.6m. The actuarial review notes that some claims may take up to 40 years to settle. The potential for asbestos related disease is a factor in this analysis.

This insurance liability for former employees is largely covered by long standing insurance agreements which could not be expected to be replaced on favourable terms. Continuation of this insurance policy cover is dependent on the workers' compensation liability remaining with ARCo. This effectively precludes alternative arrangements involving a liquidation of the company, such as a transfer of the liability to the Commonwealth insurer Comcare, from being commercially supportable at this time. The uncertainty and sensitivity surrounding the liability, with its exposure to asbestos disease, means that a disposal of ARCo shares by the Commonwealth that includes the necessary safeguards for former ANL employees would necessarily be on terms unattractive to the Commonwealth.

The second aspect is the future of the two remaining vessels owned by ARCo and operated between Weipa and Gladstone by Queensland Alumina Limited (QAL) on a yearly renewable charter basis. These bulk ore carriers, the River Boyne and the River Embley, were specifically designed for this task, including a shallow draught for operation within the Great Barrier Reef, and the use of coal fired turbine propulsion, now virtually unique in commercial maritime operations. Two similar ships, which together with the ARCo owned ships were dedicated to the Weipa / Gladstone operation, were recently retired and sold for scrap.

The ARCo Board was restructured in 2007, with two of the three positions being filled with senior executives of the Department of Finance and Deregulation. The Board continued to explore the divestment option for both the company's legal liabilities and the two remaining ships. As a result of this process, the Board has concluded that the retention of the net insurance liabilities within the legal entity of ARCo, and the retention and continued operation of the ships until the end of their economic lives with QAL (expected to be in 2012-13), is the appropriate commercial course for the company. The Board considers this optimises the Commonwealth's financial position and other risks in relation to its ARCo shareholding.

The Government has agreed to an ARCo wind down strategy that involves the sale of the two ore carriers in 2012-13, with the expectation that this will reflect scrap value. This has been the long-standing basis for valuation of the vessels, reflecting the realities of the ships' role and configuration. The administration of the workers' compensation liability will continue for the foreseeable future under the existing insurance arrangements and through the entity of ARCo under Commonwealth ownership.

Following the sale of the ships and the crystallisation of ARCo's financial position, the Government will determine in consultation with the Board, the dividends payable to the Commonwealth and the financial and governance arrangements appropriate for the administration of the insurance settlements process going forward. It is expected that the long standing practice of contracting this role to the private sector under broad ARCo Board supervision will continue. It is also anticipated that the use of the ARCo entity under Commonwealth ownership to manage the insurance settlements would be subject to periodic review having regard to changes in the claims portfolio, the insurance arrangements or the regulatory framework.

Recommendation 5

The committee recommends that the Australian River Company Limited provide a comprehensive description of its principal activities in all future annual reports.

Response

ARCo has taken the committee's recommendations into consideration in preparing its subsequent annual reports, including reporting on the progress made regarding divestment of assets and future management of residual liabilities. The 2010-11 report will include the strategy referred to in the response to Recommendation 4.

Recommendation 6

The committee recommends that the Australian River Company Limited provide the committee with an explanation as to:

- what measures were taken to ensure that there was no real or perceived conflict of interest in the appointment of the Secretary; and
- the basis upon which the Australian River Company Limited made the decision to pay for the services of a company in which an Australian River Company Limited Director is a shareholder and director.

Response

The ARCo Company Secretary was an employee of ANL Container Lines Pty Ltd (ANLCL). ANLCL was contracted by ARCo to provide management, secretariat and financial reporting services, including administration of the insurance settlements process. At the time the contract was signed, ARCo analysed the different industry sectors in which the two companies operated (bulk carrier transport for ARCo and container transport for ANLCL) and formed the view that the interests of ANLCL and ARCo were not in conflict. As a result, ARCo does not consider that there is any actual or perceived conflict of interest in this arrangement. If such a conflict had emerged the arrangement would have been reviewed.

For commercial reasons only, there has been a change in the contract allocation, with ASP Ship Management Pty Ltd currently providing these services. ARCo is satisfied there is no actual or perceived conflict of interest in this arrangement.

In relation to services purchased by ARCo from a company in which an ARCo Director is a shareholder and director, at the time the decision was made to purchase these services, they were expected to be minor in extent and cost and uncertain in relation to scope and nature. In these circumstances ARCo considered that the interests of the company would best be served by purchasing the services as and when required directly from Acton Corporate Partners Limited (Acton Partners). ARCo considered that this would most likely deliver best value for money for the company. The ARCo director that had an ownership interest in Acton Partners was excluded from all deliberations relating to the engagement.

Recommendation 7

The committee recommends that:

- all agencies review the level of detail provided in their annual reports in order to fully comply with the reporting requirements under section 516A of the Environment Protection and Biodiversity Conservation Act 1999.
- agencies, where appropriate, adopt the practice of reporting on environmental impacts and mitigation measures as outlined in the 2006–07 annual reports of the Department of Parliamentary Services and the Department of Health and Ageing.

Response

Departmental annual reports must be prepared in accordance with guidelines approved on behalf of the Parliament by the Joint Committee of Public Accounts and Audit (JCPAA).

The 2009 Report of the Independent Review of the Environment Protection and Biodiversity Conservation Act 1999 (the Review) recommended that the requirements for section 516A reporting be amended to provide more detail to government agencies regarding the type of information that should be reported and to give the reporting

requirements greater force. The government response to the Review agrees to amend the Act to allow the minister to specify the requirements for this reporting in regulations under the amended Act. This will provide further guidance in order to improve the quality of reporting and the community's understanding of Commonwealth actions to contribute to improved sustainability. Consistent with its election commitment, the government will introduce amendments to the Parliament in 2012.