



COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE

of

PUBLIC ACCOUNTS

Reference: Review of the Auditor-General's Reports 1996-97

CANBERRA

Wednesday, 7 May 1997

OFFICIAL HANSARD REPORT

CANBERRA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

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Mr Griffin
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WITNESSES

ABIGAIL, Major General Peter John, Assistant Chief of the Defence Force, Policy and Strategic Guidance, Department of Defence, Russell Offices, Canberra, Australian Capital Territory	52
AYLING, Colonel Stephen Henry, Director of Plans—Army, Army Headquarters, Department of Defence, Russell Offices, Canberra, Australian Capital Territory 2601	52
BOYD, Mr Brian Thomas, Director, Performance Audit, Australian National Audit Office, Centenary House, 19 National Circuit, Barton, Australian Capital Territory	34
BROOME, Mr John Harold, Chair, National Crime Authority, GPO Box 5260, Sydney, New South Wales 2001	34
BROWN, Mr Paul, Federal Agent, Operations Policy, Australian Federal Police, PO Box 401, Canberra, Australian Capital Territory 2600	34
DABB, Mr Geoffrey Preston Morrison, First Assistant Secretary, Criminal Law Division, Attorney-General’s Department, Robert Garran Offices, National Circuit, Barton, Australian Capital Territory 2600	34
GOODCHILD, Mr Kenneth, Director, Financial Investigations, National Crime Authority, PO Box 5260, Sydney, New South Wales 2001	34
GRANT, Brigadier Ross Lindsay Gordon, Director General Materiel Projects—Army, Materiel Division A, Department of Defence, Russell Offices, Canberra, Australian Capital Territory	52
GRAY, Mr Geoffrey, Assistant Director, Criminal Assets Head Office, Commonwealth Director of Public Prosecutions, 4 Marcus Clarke Street, Canberra, Australian Capital Territory 2600	34
HADDAD, Brigadier Peter Francis, Director General Logistic Policy—Army, Department of Defence, Russell Offices, Canberra, Australian Capital Territory 2600	52
HARTLEY, Major General John Curtis, Deputy Chief of Army, Department of Defence, Russell Offices, Canberra, Australian Capital Territory	52
HAWKE, Mr Dene, General Manager, Corporate, National Crime Authority, GPO Box 238E, Melbourne, Victoria 3000	34
HOLMES, Mr Mark Edward, Senior Director, Australian National Audit Office, Centenary House, 19 National Circuit, Barton, Australian Capital Territory	3

HUMPHREYS, Mr Jim, Deputy Secretary, Operations, Department of Social Security, Athllon Drive, Tuggeranong, Australian Capital Territory	3
JONES, Mr Bruce, First Assistant Commissioner, Australian Taxation Office, 2 Constitution Avenue, Canberra, Australian Capital Territory	3
LAPTHORNE, Mr Russell Stuart, Director, Australian National Audit Office, Centenary House, 19 National Circuit, Barton, Australian Capital Territory	3
LAWRENCE, Colonel Peter Jeffrey, Colonel (Training), Land Headquarters, Department of Defence, Russell Offices, Canberra, Australian Capital Territory 2600	52
LEWIS, Mr Michael Kenneth, Executive Director, Performance Audit, Australian National Audit Office, Centenary House, 19 National Circuit, Barton, Australian Capital Territory	34
LORKIN, Mr Edwin, J., Associate Director, Commonwealth Director of Public Prosecutions, 4 Marcus Clarke Street, Canberra, Australian Capital Territory 2600	34
LUSH, Mr Peter John, ASRP—Army, Department of Defence, Russell Offices, Canberra, Australian Capital Territory	52
McCANN, Brigadier Raymond Leslie, Director General Accommodation and Works—Army, Department of Defence, Campbell Park Offices, Canberra, Australian Capital Territory 2600	52
McDONALD, Mr Peter James, National Director, Australian Taxpayers' Association, 1405 Burke Road, East Kew, Victoria	3
McPHEE, Mr Ian, National Business Director, Performance Audit, Australian National Audit Office, Centenary House, 19 National Circuit, Barton, Australian Capital Territory	3
MELLOR, Ms Rona, Assistant Commissioner, Problem Resolution Service, Australian Taxation Office, 2 Constitution Avenue, Canberra, Australian Capital Territory	3
MINCHIN, Mr Tony, Executive Director, Australian National Audit Office, 19 National Circuit, Barton, Canberra, Australian Capital Territory	52
MOBBS, Mr Chris, Assistant Commissioner Client Support, Australian Taxation Office, 2 Constitution Avenue, Canberra, Australian Capital Territory	3

O'BRIEN, Brigadier Kevin John, Director General Personnel Development—Army, Department of Defence, Russell Offices, Canberra, Australian Capital Territory	52
PINNER, Mr Graham Charles, Deputy Director, Money Laundering Targeting, Australian Transaction Reports and Analysis Centre, PO Box 5516W, West Chatswood, New South Wales 2065	34
POWELL, Brigadier Roger Anthony, Director General, Force Development Land, Department of Defence, Russell Offices, Canberra, Australian Capital Territory	52
REEVE, Mr Guy, Audit Manager, Australian National Audit Office, Centenary House, Barton, Canberra, Australian Capital Territory	52
SHARP, Mr Peter, Inspector General, Department of Defence, National Capital Centre, 14 Moore Street, Canberra, Australian Capital Territory 2600	52
SHERIDAN, Ms Suzanne Mary, Audit Manager, Australian National Audit Office, Centenary House, 19 National Circuit, Barton, Australian Capital Territory	3
SIMPSON, Mr Peter, Second Commissioner, Australian Taxation Office, 2 Constitution Avenue, Canberra, Australian Capital Territory	3
TYRIE, Mr Edwin, Federal Agent, Director, National Operational Coordination Centre, PO Box 401, Canberra, Australian Capital Territory 2600	34
VARDON, Ms Sue, Chief Executive Officer, Department of Social Security, Athllon Drive, Tuggeranong, Australian Capital Territory	3
WADESON, Mr John, First Assistant Secretary, Department of Social Security, Athllon Drive, Tuggeranong, Australian Capital Territ	3
WILSON, Ms Judith, Principal Government Lawyer, Criminal Justice Branch, Criminal Law Division, Attorney-General's Department, Robert Garran Offices, National Circuit, Barton, Australian Capital Territory 2600	34
WRIGHT, Mr Jim, Commissioner, New South Wales East, Aborigines and Torres Strait Islanders Council, PO Box 17, Woden, Australian Capital Territory	3

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Review of the Auditor-General's Reports 1996-97

CANBERRA

Wednesday, 7 May 1997

Present

Mr Somlyay (Chair)

Senator Crowley

Mr Beddall

Mr Georgiou

Mr Griffin

The committee met at 10.39 a.m.

Mr Somlyay took the chair.

[10.39 a.m.]

CHAIR—I declare open today's public hearing, which is the third in a series of hearings to examine reports tabled by the Auditor-General in 1996-97. When this public hearing was arranged, the committee was unaware that the Senate would be sitting. The standing orders of the Senate prevent joint committees holding public hearings when the Senate is sitting. Yesterday the Senate passed a motion allowing the Joint Committee of Public Accounts to conduct this public hearing.

This morning we will take evidence on two audit reports dealing with client service issues in the ATO and the DSS: namely, audit report No. 22 entitled *Client service: Australian Taxation Office* and audit report No. 25 entitled *Customer service: Department of Social Security*. We have also invited representatives from ATSIC and the Australian Taxpayers Association to the hearing to comment on some of the issues raised in the reports.

In addition, the committee has received a submission from the Australian Council of Social Service in relation to audit reports. We will pass copies of the submission to the members here today. During the afternoon sessions of the public hearing of the committee, we will examine the audit reports in relation to the recovery of the proceeds of crime and the army presence in the north project. We will be running sessions in a round table format, which means that all participants will be present to hear what the others are saying about an Auditor-General's report or, in the case of the first session, several audit reports.

[10.43 a.m.]

HOLMES, Mr Mark Edward, Senior Director, Australian National Audit Office, Centenary House, 19 National Circuit, Barton, Australian Capital Territory

LAPTHORNE, Mr Russell Stuart, Director, Australian National Audit Office, Centenary House, 19 National Circuit, Barton, Australian Capital Territory

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CHAIR—I welcome the Auditor-General, representatives from the Australian National Audit Office, representatives from the Australian Taxation Office, the Department of Social Security, the Australian Taxpayers Association and ATSIC to the first session of today's hearing. I would like to remind you of three key features of this format. Firstly, during the discussion periods, committee members will have the first opportunity to ask questions. Any subsequent questioning or discussion between participants will need to be directed through the chair. Secondly, witnesses should, for the benefit of *Hansard*, identify themselves whenever they wish to make a comment. Thirdly, given the length of the program statements, comments by witnesses should be kept as brief and succinct as possible.

I remind you that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. The evidence given today will be recorded by *Hansard* and will attract parliamentary privilege. I refer any members of the press who are present to a committee statement about the broadcasting of proceedings. In particular, I draw the media's attention to the need to report fairly and accurately the proceedings of the committee. Copies of the committee statement are available from the secretariat staff present at this hearing.

We have convened this public hearing to examine the main issues raised in the Auditor-General's reports Nos 22 and 25. The Auditor-General has raised a number of issues relating to customer service in the two reports. The JCPA will take evidence today on customer service issues, including the customer service focus of the agencies, customer research, customer expectations and quality of inquiry service advice. The JCPA would also like to hear how the new Commonwealth service delivery agency will address the implementation of client service delivery policies, measurement of client service standards, monitoring of service delivery, customer expectations and staff training.

The Auditor-General's views have been set out in the report, as have the initial responses from the agencies. For this reason, we are proposing to dispense with lengthy opening addresses. However, the committee would be interested to learn if any action has been taken or is planned to address the issues raised in the Auditor-General's report. Mr Simpson, would you care to make a brief opening statement?

Mr Simpson—We welcome the opportunity to give the joint committee a further feel for the steps forward we are taking in client service in the Australian Taxation Office. We have a strong client service philosophy in the organisation by seeing ourselves as part of the community which we support and certainly whose support we need in return; by structuring our internal business units to recognise the client groupings they serve; and by developing strategies within those business units and in consultation with groups representing their clients to achieve support for the clients they serve.

Some of our strategies include the development of technological support to ensure

we better case manage the requests for technical assistance we receive from taxpayers. We have developed a case reporting system for our technical decisions, private rulings, objections and the like which, in part, addresses the management of this kind of correspondence received in the ATO, although work in this particular aspect on a wider front is under way.

In addition to the benefits we are deriving in getting better management of information and quality monitoring around the accuracy and consistency of our work, for example, some others are starting to notice improvement. Just recently, a senior member of the AAT commented on the marked improvement in the quality of the technical advice that has been brought about by our case reporting system, where we are mandating that people use technological support in the preparation of responses. There seems to be no doubt that a discipline of this kind and the standardisation of approaches in these areas certainly bring a focus on much better quality. As I have said, that is being noticed.

Most notably, we are now coming to a very important time for the tax office and for taxpayers in particular. It is the release of the taxpayers' charter, which is to be operative from 1 July this year. It is an important time because the charter sets out the rights and responsibilities of taxpayers, the level of service they can expect from the tax office, appeal processes and, very importantly, a new complaints mechanism for taxpayers.

In setting these things out, the charter defines our community relationship, which reinforces our client focus. It also gets to some particular expectations or service standards to make that relationship—a client focused one—very clear. It is a very important anchor or line in the sand from which we can move forward. It brings with it the challenge to have our staff and our clients share their understanding of the charter and their commitment to it. Most importantly, it will reinforce the importance of providing quality service to taxpayers.

The charter is one of three areas of focus for us today. The other two areas of focus are around smarter strategies for service for individuals: improvements in Tax Pack have certainly been noticeable, and we are looking for further improvement this year; improvements in our inquiry service; using imaging and the use of professional keyboard staff in our service of returns processing, and a number of other initiatives in that area; and as I mentioned earlier, the new complaints service.

CHAIR—We had some public hearings about the taxpayers' charter in Brisbane in December 1995. Mr Carmody said that he would give this committee a copy of the charter and keep the committee informed of its development. Has that been done? I cannot recall it being received.

Mr Jones—By way of the status report last year you were kept informed of just where we were on the status. We have just finalised, after the last period of consultation, the words of the charter. We are in the process of transmitting that to government, and we

will be forwarding to you a copy and a status statement today.

CHAIR—Thank you. Any more you wanted to say?

Mr Jones—Just to build on Peter's point, the charter is very much about an open relationship with the community—between the tax office and the taxpaying community. It builds on a number of pieces of the report that this committee also brought forward in report No. 326 and takes its source or its roots back to that. We have tried to take on board that comment. We have had an enormous amount of external consultation. The commissioner has had a particular advisory panel advising on that process. We expect to go public in terms of an actual announcement of the charter in June with an operation basically commencing then but formally from 1 July.

Perhaps the most important couple of points to make are that while there are not necessarily new rights or responsibilities there the opportunity for a complaints mechanism inside the office, which can certainly give us a good insight into a whole range of issues that are happening in our transactions with the community and how we can use them as a basis for continuing to improve our performance, is very important.

Our work in surveying the community to get some benchmarks of where we stand shows us that about 61 per cent of the community who have had dealings with us say that our service is good or excellent. Only 14 per cent of them say that it is poor. While there are some things to build on there, clearly that gives us some benchmark from which to start to measure the impact and the change that we hope to bring about in this process.

Clearly, as Peter also highlighted, there is a major challenge to keep working with our staff, to build that relationship. We currently did a survey with our staff. About 94 per cent of those staff were aware of the existence of the charter and about 71 per cent of them claimed that they had a good or better understanding of more than half the contents of the charter when we did that survey earlier this year. So that is again a fairly strong base from our point of view to be starting from in terms of awareness of the staff. Three-quarters of them do think it is a good or a great idea, so I think we have got a fairly strong basis there on which to build.

The final point is that one of the concerns you raised previously was about the training and the awareness that we would bring to our staff in undertaking such an adventure as the charter. We have plans and are already executing some plans in terms of awareness, kits and support processes such as scripts for dealing with people in various activities, as a way of ensuring that we start to achieve the standards that the community expects and that we will document by way of the charter.

Mr Simpson—We envisage reporting to the parliament through the annual report. More widely, we are looking at reporting on our performance against the charter in such documents as Tax Pack.

CHAIR—Does that complete the ATO's opening statement?

Mr Simpson—Mr Mobbs just had a few points on Tax Pack and Ms Mellor on the complaints mechanism, which I think is very important.

Mr Mobbs—I sit across the client service functions for the individual programs. I can tell the committee that we have approximately 13 projects running to improve the performance of our inquiries function, aiming at improving quality and consistency as well as timeliness. Broadly, we will be working towards certification under ISO 9002, which is a widely recognised standard for a quality service program. We have made big strides with improvements in Tax Pack, as Mr Simpson said. I have surveys showing a very high level of acceptance by Tax Pack users of last year's Tax Pack.

Senator CROWLEY—What was that you just referred to—ISO 9002?

Mr Mobbs—ISO 9002, international standard 9002. That may not mean much to you at the moment but I can provide a statement of the benefits that that brings.

We are expanding our tax help program this year in terms of the structure inside the tax office that supports it—tax help is a volunteer program in the community—and also in terms of our intended reach into the community. As an adjunct to that, we are in the process of appointing eight liaison officers specifically to deal with the ATSI community, who, as the audit office noted, are quite under-represented in our tax help program at the moment.

We are exploring and implementing new ways of providing information to the community. Our fax from tax service will provide ready access 24 hours a day to commonly asked questions and material. Our Tax Pack and the publications will go on the Internet this tax time, together with a lot of material for commonly asked questions. We are currently evaluating tenders for an electronic Tax Pack, a Windows based product which will be piloted this year and next year will also enable people to lodge their returns.

We have dramatically improved the quality of our publications and the friendliness of them, and we have survey results to demonstrate that.

Senator CROWLEY—One definition of 'friendly', Mr Mobbs?

Mr Mobbs—We do not put a definition on that. We ask the clients answering the survey to tell us. In almost every area that was touched on in the audit report I do believe we are implementing projects to improve performance.

Ms Mellor—My role in the tax office is to implement the new complaints handling process which is explained in the charter. What we are trying to do is to fill two gaps, if you like, in our service delivery. One is about people who have a problem with

the tax office being able to have that problem resolved. In doing that, we will be taking an independent role within the tax office. We are not located in a business line and we have a responsibility and authority directly to the commissioner to assist in resolving problems. The second is about gathering information about what are the things that we do that are causing problems to actually provide a continuous improvement framework within the office to learn from that experience.

At the moment we have had some discussions with a range of organisations in travel, insurance, banking and telecommunications about how they manage complaints processes. We have also looked to the Australian standard on complaints and are very much building around that. We have established a very strong relationship with the taxpayer ombudsman about what our relationship in the future might be—how we can help the taxpayer ombudsman and he can help us in that whole continuous improvement scenario but also in resolving individual matters.

We are looking at different ways of managing this whole process. We have looked at the audit reports on call centre technology. We have looked at other agencies like DSS on call centre technology to make sure that when somebody who is aggrieved rings us they actually get a person quickly—and someone who can help them quickly.

It is a whole new dimension of our work that is based on the Australian philosophy in the standard of getting back to the person with whom you were dealing first, being able to access their manager and, if that does not work, being able to access an independent group of people to assist in complaint resolution. It is a new dimension that will be operative from 1 July.

CHAIR—Mr McDonald, would you like to make an opening statement?

Mr McDonald—In broad terms, I would have to support most of what has been said around the table from the tax office. I think they do have a client focus. One would argue it is not quite right yet and it is a moving target. One thing that does concern us, and I think it concerns most taxpayers—it certainly concerns those who talk to me—is that they really do not like being called clients. It is very much a captive audience. I quite relish the idea of having a client focus but, in the environment we are talking about, calling taxpayers ‘clients’ does not go down very well. In fact, it goes down like a lead balloon.

CHAIR—Would you prefer victims?

Mr McDonald—I will leave you to judge that.

Senator CROWLEY—What do they say they would like to be called?

Mr McDonald—Taxpayers like to be called taxpayers, not clients.

Senator CROWLEY—Yes, exactly.

Mr McDonald—Some may refer to themselves as victims but that may be because of other processes resulting from audits, et cetera, and they may very well be victims, whereas others may very well be villains.

I must declare my hand here. I am actually a member of the commissioner's advisory panel on Tax Pack, so I have been very much involved in that process. Apart from this year, when I was unable to attend, I have also been a member of Chris Mobbs's panel looking at the Tax Pack. So I am very much involved in that process as well.

In broad terms, I think the tax office is going down the right path. There were two or three years when I think Tax Pack itself did have some substantial problems, mainly associated with errors in the technical content. That has been overcome. In some ways I feel quite saddened by the fact that Tax Pack was viciously attacked the way it was, simply because I believe the Tax Pack is the messenger; it is not the problem. The problem that comes through Tax Pack is that it identifies, in no uncertain terms, just how complicated our tax system is. It is very difficult to put in about 100 pages of just what our laws are. In my own organisation we have tried to do that and I think we have been able to get it down to about 700. So you can see the magnitude of the problem.

In terms of the direction that they are going, I certainly support it. I have difficulty seeing, however, how we can have meaningful short versions of Tax Pack simply because the laws transverse all taxpayers. Even a simple return can sometimes involve very complex issues about law. If it is not there, then unfortunately you cannot deal with it and then that raises all sorts of issues for the taxpayer in whether or not they have made a full and true disclosure in their returns. Nonetheless, that is what people want. So there is trialling going on there and I support that.

With the taxpayers' charter, I think equally there has been a very constructive consultative process that has gone on. As far as I am aware, most, if not all, of the suggestions that have been put up by what we call externals have been taken on board and I believe have been incorporated into the final draft. I have not seen the final draft yet but, if indications are along those lines, then I think it will be a very worthwhile document in that it will set the goals. Taxpayers will know precisely what their rights and entitlements are and then the tax office will have to meet those rights and entitlements.

It is going to, I think, put a lot of pressure and onus on the tax office to actually get it right and to get their performance standards right. I do not think that is a bad thing. I think it is a very positive thing for taxpayers. Unfortunately, over a large number of years now I think there has been certainly a very strong perception in the community that there is an imbalance in the system—there is too much power on the side of the tax office and poor old taxpayers have none. I think the taxpayers' charter will address that.

We have some concerns that the complaint mechanism is actually going to be handled inside. My organisation's view is very much that it should be an independent process. But, if what Rona Mellor says is correct and it is going to be an independent process directly responsible to the commissioner, then at least it goes part way, I think, to addressing that issue. But, at the end of the day, I must admit I would still rather see an independent process.

I am concerned about the general inquiries area. I know there have been a lot of technological advancements made in terms of delivery of inquiry services. The concern I have, however, is with the technical side. My own organisation runs an inquiry service for our members and, unfortunately, we get quite a number of taxpayers and even professionals who contact us after they have received information from the tax office, and I cannot always say it is accurate.

That is of concern because taxpayers are out there relying on that information and are preparing their returns and even structuring their affairs based on that information. I would certainly urge the tax office to undertake qualitative research of the type where they are, in effect, ringing up as if they were a taxpayer with a whole series of questions that are unknown to the inquiry officers so that they can then actually judge the quality of the information being delivered. Thank you.

CHAIR—Ms Vardon.

Ms Vardon—I speak today for the Department of Social Security and for the Commonwealth Services Delivery Agency. At the time of the ANAO audit of customer service, the government announced the creation of the Commonwealth Services Delivery Agency and we in the agency welcomed the audit. It gave us some valuable information about how DSS, one of our major clients, operated as a customer focused organisation and how well it was placed to move to the new arrangements. The audit was conducted in a collaborative process with the ANAO and the DSS and that worked very well because the department took it very seriously and supported the six recommendations.

We have also involved the ANAO in continuing discussions about the agency as it has been developed. We would seek to continue to provide our reports to them so that they can have a look at what we are doing. In fact, the ANAO is auditing the process at the moment of setting up the agency.

The Commonwealth Services Delivery Agency is somewhat of a departure from the traditional way in which services have been delivered by the Australian Public Service in that the idea itself is a major customer service initiative—that is, a person or citizen in Australia should be able to go to the one place and get a range of information from a number of government departments.

We have two primary clients at the moment. We deliver 100 per cent of the

Department of Social Security's work, we deliver around about 30 per cent of DEETYA's work, we are going to do some work for the Department of Health and Family Services and we are negotiating with others to provide service from the one place. As I said, that is in itself a customer service to citizens.

How we do it then is very important. I am not going to go through a great long catalogue at this stage but I am happy to talk about it. Very quickly, there are a number of things we have done but we are also preparing a major customer service strategy for our board. We do intend to turn our organisation upside down and put the customer or the citizens of Australia at the top and put our customer service philosophy through the whole organisation.

In the meantime, to be very specific, the first stage of point of contact decision making is fully operational. Appointments for customers are now standard operating procedure. The protocols for liaison between Teleservice and regional offices have been reviewed and introduced throughout the network. We have done another customer service survey which is going to be repeated in May.

We have developed a customer service charter but we are going through a consultation phase at the moment with 300 stakeholders and customer focus groups. We have developed a complaints handling procedure and, as part of that, we are introducing 1800 numbers across Australia so that people have a chance to talk to people if they are not happy with our service and we are introducing customer feedback cards. We have updated customer service training all over Australia. We have introduced customer focus groups.

We have embraced the Australian Quality Council assessment criteria. In fact, we are participating in a benchmark study on customer satisfaction. We have reviewed the whole of our training program for training our staff in the front line. We are reviewing all of the letters that we send out to people which cause a lot of stress because they are not always accurate. We send out 84 million letters every year and they need to be reviewed. We are having a look at all points of customer service to work out how to improve them. I think that might be enough and I am happy to talk on any of those topics.

CHAIR—I would like to raise one thing in relation to Tax Pack. Perhaps Mr McDonald or the ATO would like to make a comment on this. For a number of years now through this committee I have been very keen on seeing the Tax Pack issued before the tax year and not after the tax year has finished. Has any thought been given to the advantages of issuing the Tax Pack before the tax year starts so that people can plan their tax expenditure instead of receiving the Tax Pack at the end of the financial year? It is quite a daunting task then to use the Tax Pack properly and retrospectively. I think that is why so many people are using tax agents. Would anyone like to comment?

Mr Mobbs—The Tax Pack is specifically a return preparation guide for the

financial year which has concluded. There are many prompts in there that would assist people to prepare their affairs for the future year, but this parliament does not finish passing legislation for the current year until quite late in the year. Sometimes, I have to say, it is a touch-and-go thing, as some of you may know, as to whether the legislation gets through before the Tax Pack printing deadline, which is this week.

I can see some practical difficulties in producing something at the beginning of the year which taxpayers can rely on. At the moment, we believe they can firmly rely on Tax Pack to complete their return from last year. It is not conceived as a product, for that reason amongst others, for forward planning, other than in a general sense where people can have some certainty that the future is as it is on 1 July.

Secondly, we hold it up as a pack with the return forms in. We deliberately hold it up until late June because there are many people who would attempt to lodge tax returns of an incomplete nature before they have received all their group certificates at the end of the year. Its lateness in delivery is a calculated one by us to try and make sure that people correctly complete their return and declare all their income and gain their benefits.

Mr McDonald—I would support that. It is a real problem when the legislation does not go through until right to the end of the year. I have exactly the same problem in publishing. We produce what is called a tax summary for the year. We are sitting there biting our nails, to be quite frank, wondering when and what legislation is going to go through. Otherwise you may have to have a little note down the bottom of the page saying, 'Pick which bit is right and which bit is wrong.' If the legislative process was cut off earlier, it would certainly make life a lot easier for the production of such publications as the Tax Pack, as well as the return preparation and even tax planning processes for taxpayers.

CHAIR—Mr McPhee, I should have asked you to respond to the opening statements.

Mr McPhee—Perhaps if I could just make a few overview statements, and keep it fairly short. Customer service has become an increasingly significant issue for government agencies in Australia during the 1990s. Certainly, the community has heightened expectations that agencies, including the tax office and DSS, provide services which are more responsive, relevant, accessible and generally of a higher quality.

The ANAO strongly supports the need for the public sector to recognise the rights and obligations of the general public as citizens; however, we appreciate the value of a strategy to ensure that agency staff focus on quality service provision using the concept of 'customer' or 'client', as is accepted in the private sector. The terms 'client' and 'customer' can be used interchangeably and in the audit reports we have used the terms to reflect the terminology actually used by the respective agencies.

Both the ATO and DSS deliver services to the public in a complex legal and social environment. While these agencies implement different elements of government policy, service delivery is a key component of their operations. For organisations to consistently deliver quality customer service, a range of organisational policies and practices needs to be implemented.

In the audits of ATO and DSS, we drew on research which has shown that there is a significant relationship between organisational characteristics, as perceived by staff and managers, and customer service outcomes. In particular, the audit sought to identify opportunities to improve the quality of the agencies' customer service, their administrative effectiveness and their overall performance. The audits drew on the principles and good practice of customer service and relevant benchmarks, which had been successfully applied elsewhere.

Mr Chairman, if I may, I will just mention a number of common themes which emerged during these audits that have relevance for improving customer service across the APS. Firstly, there is value in adopting a strategic direction which takes customer needs and expectations into account. Decisions by agencies should reflect outcomes of research on customers' needs, expectations and perceptions of agency performance.

To maximise customer satisfaction, customers should be provided with information which helps develop realistic expectations in line with what the agency can deliver within the relative legislation or regulatory frameworks. Indicators which measure the agency's performance in meeting customer needs and expectations should be used to determine whether relevant performance standards are being met. Further, agencies should analyse and change their operations to ensure that they are indeed customer friendly. Agencies should also have customer feedback as a key driver to their continuous improvement processes.

The ANAO found that on some of these issues the two agencies examined had made progress, but there was scope to improve the level of customer focus overall within these organisations. We made 13 recommendations to improve service in the ATO and six recommendations in DSS on a wide range of issues, with examples relating to undertaking and using data from customer research and human resource management practice. It was recognised that some of the recommendations relating to DSS would need to be implemented by the new Commonwealth Service Delivery Agency. The agencies, in general, agreed with these recommendations. As I mentioned earlier, the ANAO recognises that both agencies have made some progress in improving their level of customer service.

More generally, the application of customer focus will remain a key element in public sector program delivery into the future. The government has provided an indication of this in its plan to establish the new Commonwealth Service Delivery Agency. The ANAO has been mindful of the need to assist public administration, drawing on our experiences from these two audits. In this regard, we have been working with the

Management Advisory Board to develop a customer focus better practice guide for the public sector at large. This publication will be distributed to agencies next week, and is expected to be formally launched next August, along with the customer service report and tool kit prepared by the Management Advisory Board.

This better practice guide, as with other better practice guides developed by the ANAO, is designed with a number of purposes in mind. It is there to assist agencies in the development of their own practices, and it will be used subsequently by the ANAO as a framework for assessing customer service practices in the future. The ANAO, with the experience of subsequent audits, will review the principles to ensure ongoing applicability in a fairly dynamic public sector environment.

The principles of better practice in customer service underlying the two audits and elaborated in the better practice guide are highly complementary to other publications, such as 'Principles on the development of service charter', produced by the Department of Industry, Science and Tourism, the Commonwealth Ombudsman's guide for complaints handling and the work on tool kits being produced under the sponsorship of the Management Advisory Board. Where appropriate, the audit office has provided input to these publications. They certainly reinforce the approach underlying the audits and add to the incremental learning of the APS on the issue of quality customer service.

Mr BEDDALL—My first question is to the Department of Social Security. I ran a bit of a reality check before I came to this meeting. I rang my staff this morning, who actually are at the end point of your telecentre. When it does not work they actually get to know about it. I asked them the most common complaints they got from the telecentres. The first was a lack of knowledge by the people on the other end. The second thing was the impression created by the people on the other end of the telephone to the client that they want to get them off the line as quickly as possible. The impression they get is that they are being driven by a time thing rather than by a client thing.

The third thing they say is that mostly the information is not correct. They have often created the impression that they are entitled to a benefit and when they lodge the documentation they are not entitled to that benefit. The fourth thing that follows from that, is that, a very large percentage of the time when people lodge documentation, when they ring back the documentation cannot be found. What we are telling all of our clients to now do is get a receipt. If you have not got a receipt, there seems to be a lack of willingness by people at the other end of the phone to go searching for the file. It does worry me that this telecentre that is delivering that outcome is now going to run more services. That is a deep concern I have.

The other thing I want to ask about is your client focus groups. I would like to know who your clients are, what type of clients they are. Primarily, what we are dealing with in my electorate and most clients in Social Security is the lower socioeconomic group that is less able to deal with people through electronic means. Who is running these focus

groups and what experience do they have in running focus groups?

Ms Vardon—The teleservice centres are overloaded. We think we get 20 million phone calls a year. We are probably able to handle 16 million phone calls. We are opening up new teleservice centres all the time. A number of the things you have said we have taken to task because the issues you have mentioned are familiar to us. We get that same feedback. We have a team of people working really hard to stop it.

The new teleservice people that we recruit are trained in an 11-week program. We recruit them from outside and they are trained fully before they go behind the telephones. Some of the earlier teleservice centres were set up without that significant amount of training. New teleservice centres have full training before they commence.

The teleservice centres do not say to people whether or not they can have a benefit. Teleservice centres actually make an appointment for people. They may say, 'You may be entitled to a benefit or pension,' but they make an appointment for the person to go and have a discussion face to face at a counter and put their documents out. There have been issues about information going to teleservice centres that was not recorded and now receipts are issued as a matter of form.

The whole of the teleservice centre operation is being reformed. Basically, the demand is too great. One of the things we are looking at is that a lot of the demand is because we have got it wrong somewhere else. Every time we send out a letter that does not make sense, somebody rings. Every time a politician makes a statement, people ring to say, 'Will it affect us?' Some days we have 700,000 phone calls across Australia in the teleservice centres. I think the average is about 150,000 per day. It is quite a large number. We have been monitoring that over time to see how many calls are actually being answered.

I have sat in a number of teleservice centres and have been quite impressed by the way people answer the calls. Some of these centres are quite small. They give out millions and millions of answers. Some people have very complex problems and it is inappropriate for them to be dealt with on the phone.

We are in a dilemma over that timeliness issue that you raised, that there is a feeling that we have to get off the phone, and it is because teleservice phones do not stop. The teleservice centres are not set up for intensive counselling or for going into depth. That is what the appointments do. So we are in a dilemma about whether to try to get through the calls so that we can receive all of the calls or whether to spend longer and have people hang up. If you go into a teleservice centre, you will see that every operator is on the phone all of the time.

Mr BEDDALL—You said that an appointment is made for people who want to get a benefit. So every single person who wants to claim a benefit gets an appointment?

Ms Vardon—People who are newly applying for a benefit are dealt with at an office. So the teleservice centre now has the capacity to make an appointment anywhere in Australia at a local office. In fact, an appointment schedule comes up from the office onto the screen and the person is booked in immediately in that office. So we acknowledge all of the issues that you raised.

Mr BEDDALL—Would it not be easier if people could just go to the DSS like they used to?

Ms Vardon—One of the things that we have been trying to do is reduce the queues. One of the complaints people make is that people are queued all over the place and down the street. This has been a fantastic way of managing queues.

Mr BEDDALL—Yes, but it has moved them into a telequeue.

Ms Vardon—The feedback from people, both our staff and the customers who come in, is that it is much better to have an appointment. You go and you know when it is and you see somebody and the time has been set aside for you and you go through the whole of your story without being rushed because of a massive queue. There are strengths and weaknesses in both, but in the end we think it is much better for everybody—and the feedback is much more positive—that teleservice centres are able to make appointments. People do still come off the street and we still do see them in the offices straightaway.

Mr BEDDALL—I also asked about your focus groups?

Ms Vardon—Customer focus groups are conducted in the Tasmanian area, Western Australian area, north Victorian area and Brisbane. I am happy to give you more information if I can come back to you with the details of those focus groups.

Mr BEDDALL—Yes, I am interested. If you are dealing with customers who are happy with their service, it depends on who you deal with. One of the suggestions I would make to you, and you may take on board, is that there are 148 House of Representatives offices around this country where members deal with what is left over from your telecentre—the people who cannot get through or the people who are not happy with the appointment or whatever. Perhaps that is one of the focus groups you might like to contact, because you will certainly get some feedback.

Ms Vardon—Actually, we have targeted the electorate secretaries as a major group of people we need to keep informed and listen to.

Mr BEDDALL—Mine have not heard about that.

Ms Vardon—We have only had the agency open for a minute. We do accept that we have a lot of improvement to make at all the points of contact in our organisation, but

we have people working on every single one of those points of contact.

Mr Wadeson—If I could just supplement that answer on customer focus groups, one of the things we learnt early from customer research was that it was not appropriate to have agency staff doing customer research. For all the focus group activity, we usually use an outside provider. I can say, having seen the feedback, that these people are breathtakingly honest. I think one of the good things about it is that they are usually quite able to separate out service delivery issues from policy issues. I think it will grow in its importance as a way of bringing feedback into offices.

CHAIR—Mr Wright, what issues of the ATO client service are of concern to ATSIIC?

Mr Wright—In what way has the department tried to provide a better level of customer service to Aboriginal indigenous Australians, in particular those in remote rural and truly remote communities? What policies, if any, were put in place to employ more indigenous Australians within social security offices, particularly in regional offices? Will DSS continue the Aboriginal liaison officer positions?

There is a complaint that not enough attempt is made by departments to better coordinate visits to communities or major community groups by combining visits rather than visiting individually. Has everything been done to improve this? One of the questions I was asked by one of our community groups is about it being compulsory to put 'indigenous' on the forms. It is not compulsory now and our people believe it should be.

Senator CROWLEY—Put what on the form?

Mr Wright—Declaring whether you are indigenous. It is not compulsory. The biggest complaint of all, however, is how the tens of thousands of Aboriginal people who work for the dole under the CDEP arrangements have been treated. Once they start work in CDEP programs, they are then regarded as being employed, lose all other state entitlements and/or concessions, and yet are still being paid a pittance. Indigenous Australia thinks this is discriminatory and wrong. This needs to be addressed in the department. We had the minister there not long ago and we raised those concerns with her at an ATSIIC board meeting.

Given what happens to CDEP employees, does the department regard the current arrangements as inequitable or defensible, and does it agree that indigenous Australians, if they automatically lose other entitlements, should be paid a proper living wage to work on CDEP related projects, the work for the dole scheme that we have had going for years?

CHAIR—Ms Vardon, would you like to answer that?

Ms Vardon—Certainly, but not the last one. I thought the question was going to

the tax office and I missed the first one.

CHAIR—So did I.

Ms Vardon—I think it was about how do we listen to indigenous people.

Mr Wright—Yes.

Ms Vardon—I am leaving for the Northern Territory this afternoon to spend the next two days with two Aboriginal communities for the particular purpose of having a look at the issues that you have raised in relation to CDEP and the nature and level of the service that we give. Two weeks ago I was in Townsville and met with all the indigenous community leaders there and listened to what they had to say. I have made an appointment to go the Torres Strait Islands shortly to listen to them. Personally, I am not unfamiliar with Aboriginal communities, having spent a lot of my time in South Australia with the Pitjantjatjara people and others. I worked in western New South Wales and have seen the Aboriginal communities there.

We are concerned, and I know our minister is concerned, about the relevance of our services to Aboriginal communities. I would not want to say what we were going to do at this stage about that, because we do not know. But we know that we have to increase the relevance of our service to Aboriginal communities.

I have been participating in interactive communication all over remote and rural Australia with our officers, and they have raised a number of issues about Aboriginal servicing, particularly in relation to the Aboriginal agents. The Department of Social Security had a number of Aboriginal agents. We are now looking to work out a new relationship with those people. We do not intend to reduce the number of Aboriginal liaison officers. In fact, we want that group of people to grow and we are also keen to have more Aboriginal staff in general.

On the question of CDEP and social security and the interface, the Department of Social Security is now working with ATSIC to look at where those two policies bump into each other and how there can be a better rationalisation.

Mr Simpson—Mr Chairman, there are some issues from the tax office point of view that we would like to put before the committee, generally responding to this. I would ask Mr Mobbs to do that.

Mr Mobbs—We have a number of initiatives specifically to help our ATSI taxpayers, or possibly clients, especially in remote communities. We have an ATSI resource centre in Alice Springs which we are promoting nationally with a 13 number, for the cost of a local call. Last year we trialled a short form for Aboriginal clients in remote communities. That went down very well. This year that will be released. We are printing

some 30,000 of those short forms this year.

This is a follow-up to a program we have had running for many years by a gentleman in our Adelaide office, the bush taxman, who personally visited many of the remote communities. He recognised that he could not keep that up forever—age is catching him—and proposed to us that, subject to certain safeguards, those communities could use a special form. It has certain culturally sensitive features to it and we would also be producing one for Torres Strait Islander communities of a very similar nature this year.

Finally, we are implementing a pilot program in eight offices of ATSI liaison officers, full-time officers, whose job will be to liaise with the Aboriginal community, most especially those customers who are living in community style. We are expanding right now.

Mr Wright—One concern with the tax office: what efforts has the Australian Taxation Office undertaken to conduct specific research into the client focus needs of ATSI organisations? If research was conducted, what if any was the extent of involvement by indigenous Australians? If no research was conducted, why not, and do plans exist to conduct research in the future?

CHAIR—Mr Wright, there might be some misunderstanding about the format of this meeting. The purpose of inviting you along was to give us some sort of perspective on the client service delivery with the policies of ATSIC, as distinct from questioning what service delivery there is to your clientele. So it was really your agency we were looking at. I think I might have to pull you up there. I will go to Senator Crowley, who had a couple of questions.

Senator CROWLEY—One question I have is directed to both ATO and DSS. One of the things that I have read or heard about is the challenge for the ATO of the rotation of staff, that the minute you have trained them the private sector takes them off and gives them twice as much money, or something along those lines. This means that you are always in the process of getting in new staff, usually younger staff. I even heard a whisper that you are actually looking to employ women because they might be more likely to stay, and I would be interested if you had a comment about that. It means the private sector is not perhaps ready to take them away from you yet. What I want to know is to what extent is the rotation of staff a challenge to better customer service because you are forever training people.

I ask a similar question of the DSS—perhaps to you, Ms Vardon—given that you are going to have people who, as I note in the ACOSS submission to you, are involved in the business of rotating staff, of having them multiskilled, so that they will know the answer to DEETYA questions, they will know the answer to child-care questions, they will know the answers to the intricacies of social security.

What efforts are both of you making to balance, first, the need for training staff, particularly if it is rotating, but, secondly, the difference between having somebody who knows it backwards because they have been there for five years and they are an expert in it, versus rotating them so they know everything and so you are chronically undercutting your own expertise, in a way. I will ask you a couple more after hearing that, but just small questions.

Mr Simpson—It is certainly true that we do have a throughput of staff. I would perhaps correct one impression that you have, that they are taken away for twice the money—they are often taken away for four or five times the money, and it is very difficult. I do think, though, that in the climate that has existed for the last few years our attrition rate of staff has gone down very considerably and we have a very significant retention of staff, possibly to the point where it is, if anything, a bit unhealthy. All that happens, or has been happening in recent years, is that your very best staff go and that has quite a dramatic impact. We are certainly looking with some optimism to what will come out of some of the Public Service reforms and what that might do on our ability to retain some staff.

Having said that, I should note that we have been in a very difficult period for some years and we in fact have not been recruiting staff for four or five years. I think that will prove to be a very unwise decision, but one that we were forced to face up to. A year or two ago we found ourselves able to do some recruiting. We got in very quickly and took about 200 people off the Department of Industrial Relations's graduate list. We now have them in the organisation. I have to say that having some new blood and new ideas was like a breath of fresh air. In our organisation only about 16 per cent of our staff are under 30. To be a dynamic, growing, living, learning organisation, it ought to be double that. That reflects a lack of recruitment. Another feature is that about 80 per cent of our very junior staff, up to ASO3, are over 30, which means that they are not a pool for developing for the future. There are some fairly major work force planning issues that we are facing up to.

This year we commenced the first year of a very structured graduate taxation officer program. We went out and commenced recruiting the very best people we could find from the law, commerce, economic and accountancy disciplines to put into technical work in the Taxation Office. There were about 160 people recruited this year. Our plan at the present time for the coming years is to increase that by 50 per cent, which will mean that over the next five years we will be taking on about 1,000 new recruits.

It is unrealistic to expect that we will retain all of those recruits. It unfortunate to record that some of these graduates have told me—and we have done very well; we have recruited some people with very high quality degrees—we got them because some firms and some businesses have not been recruiting this year. Some of these firms approached them and said, 'Look, go into the tax office, spend your two years in their development program and, when it is over, come and see us because you will have a job with us.' That

is rather disappointing, but that is the nature of things.

I think we also have to take a wider perspective: our role is just one role in the wider issue of the tax system within the whole community. Certainly the legal and accounting professions play a very major part in that. There is a natural expectation that staff will leave. We are looking at ways we can attract some of them back. Again, we are looking at some of the Public Service reforms as a way to hopefully do something there.

We are certainly not seeking to attract women on the basis that they will not leave. We are always seeking to attract women. I think we have a very high proportion of women in the organisation. I think at one stage we had possibly the highest proportion of women in the SES, of whom Rona is one. Unfortunately, when you get women who are very good and move up the organisation, they become sought after by all sorts of organisations. Just recently Ms Scollay left to head up the Privacy Commission. I think that was just one offer she chose out of many offers that were made to her. It is a constant problem for us in seeking to find women and encourage them to pursue careers within the tax office.

Senator CROWLEY—What percentage of the cost do you incur in keeping your staff client focused? Can you put a figure on how much the rotation of staff contributes to that, let alone adds to that, or is it something that is built into this audit?

Mr Simpson—I cannot put a figure on it. I saw a figure I think within Mr Mobbs's line. They spent a very significant amount of money last year on training for client contact skills and the like. If you applied to that an attrition rate or turnover rate, you would get some idea. I do not know that it would be out of the ordinary compared with the rest of the organisation.

Mr Mobbs—It is not my perception that at the moment we are suffering from any undue turnover that is adding to our training costs. I think training and retraining go with the territory of call centres. We are concerned about training. We accept the losses, but we are not at the lower end on the inquiries side seeing anything undue there. Indeed, with public service contraction, I think we have a higher retention rate than we might have had in the past.

Senator CROWLEY—For the purposes of letting everyone have a go, perhaps Ms Vardon might want to comment on the balance between multiskilling and the expertise achieved over a few years.

Ms Vardon—You have identified one of the most important issues with which we have to grapple and on which we have to make a decision before we launch into the future. That is, do we want the person who has the first contact with the citizen to be able to solve the problem—which is the direction the Brisbane City Council is going towards—or do we tolerate one referral inside our organisation? At the moment, we may have two

or three or four. We want to streamline it so that we have two.

The weight of evidence is that, at the moment, it is inconceivable that one human being should be able to be across the whole range of services that this agency might contract for. We have divided our agency into customer segment teams—one for the aged, one for youth, one for families, one for the unemployed and one for people with disabilities. We would hope that there would be a shadowing down at our local sites so that people who were retiring or who were elderly and wanted to look in the basket of opportunities would be received by a team that was trained not only in the services that we deliver but also in everything else that is available.

The Australian Taxation Office outposts some of its own people. We think going for specialist services within an office is probably the way to go for the future so that people will build up expertise. There would need to be a generalist front. We do not know how wide that is at the moment. Many people want to know just one piece of information. They do not need the expertise, but others do. We would probably move down that model, but it has to be resolved.

On the whole, I think rotation is a good thing. After two or three years, people do get burnt out. There is pressure on the people in our front offices from people coming in all the time. The queues never stop, the phones never stop, people are there all the time. It is quite good for people to get a change. I think that in every team you would want a balance of expertise and someone new. That is what you aim for in a properly managed organisation with the general lot.

Senator CROWLEY—Is the DSS now talking about customers? When did it switch from clients? Do you know whether the people in the world actually feel about DSS the way they do about the taxpayers, if they are not clients and they are not customers? If they are customers, I would like to ask you what they think they are buying or what you think they are buying? Can we keep looking for a better word for the people who attend DSS?

Ms Vardon—The Department of Social Security used the word ‘customer’, and the agency uses a generic term. There are many people inside the department who feel much more comfortable with the word ‘client’. We have decided not to prescribe it—people should use the word that is most familiar. As often as I can, I refer to citizens, because it seems to me that that is whom we are providing a service for.

Mr BEDDALL—Not only citizens get benefits.

Ms Vardon—This is true. Every time I use the word ‘citizen’, someone in Social Security pulls me up and says, ‘It is a technical term.’ I use it generically, but I think what people care about more is the quality of the service they get when they have a

contact with us.

Mr GEORGIU—Having heard some of the surly responses from some departments and authorities to ANAO's recommendations, it is nice that the tax office seems to be quite genuine in their belief that they have been going in the right direction but that they also feel they have a bit further to go. I note that to balance some of the comments that I have made about some other departments. The ANAO report says that there is some staff scepticism about whether or not a taxpayers' charter is necessary. It is a fairly short comment. Could you elaborate on how extensive that scepticism is and what it is based on?

Mr Holmes—The comment in the report in relation to staff scepticism was based upon several focus groups at the time we were researching the report and on some staff submissions which were made to the taxpayer charter project.

Mr GEORGIU—Yes, but what was the content of the—

Mr Holmes—The scepticism ranged across a number of issues. Some of it was about the commitment of senior ATO management to actually implementing the charter in real terms, as opposed to just having something on paper, through to some of the questions that members of the committee have raised about people being classified as clients, customers and taxpayers, and the resources that would be necessary. There were also staff concerns in relation to the liability that staff may face and whether the charter should be legislated.

Mr GEORGIU—Could I get some comment out of tax on this perception about staff perception?

Mr Simpson—I have just a couple of points, and I may ask Mr Jones to respond also. It is certainly true that just as people in the community and here in this committee today have some difficulty with the concept of calling a taxpayer a client, so, too, do some of our people in the organisation. It would be quite obvious, I suppose, when talking to a seasoned auditor to expect him or her to call a taxpayer a client; it is a bit of a challenge. They have another word that begins with 'c' perhaps for them. So we have not focused much on the notion of taxpayer as client.

Another issue is, of course, that our roles have been expanded considerably in recent years. We are not just dealing with taxpayers; we have child support payers, HECS payers and, of course, superannuation clients, apart from people in a taxpaying capacity. So the word 'client' was a convenient word and we have certainly not thought of a better one.

But our focus has been on client focus as a means of delivery of the sort of service we want, rather than a name. Certainly, our charter has been drafted in the first person so

it does not use the word 'client' as far as I can recall. It talks about what you may expect from the tax office and what the tax office expects from you.

There are some attitudinal things. I would have to say that there are some other issues going on in the tax office. Our organisational structure around business lines was certainly about driving a client focus in the organisation. We are in the process of restructuring our management board to get a clearer and higher level at commissioner level and greater accountability there. Again, the major focus for the commissioners for this coming year, as we implement the charter, will be in obtaining a very strong commitment to the charter from our very senior resources in the organisation and then driving that down through the organisation.

Since some of that early work was done and some of those responses that Mr Holmes has referred to have occurred, there has been a lot more awareness in the organisation and a lot more thought about it. Some of the information and survey work that Mr Jones' people have done would indicate that, and I might just ask him to reiterate that.

Mr Jones—I mentioned earlier that, for example, the awareness of that charter was very high, and I think that was partly true, too, during the charter process. People do see it now as a good or a great idea in the survey which we did only this year—74 per cent of them. I think that some of the scepticism does come from some fears that Mr Holmes raised and so we have taken steps to release concurrently what we are calling an 'employees' handbook'. This attempts to make clear to people where their liability stands, for example, in what they do, and it tries to reassure them.

We are also offering to provide an internal staff support line, particularly for staff who are complained about. This is a mechanism aimed at trying to curb their fears that in some way they might be mistreated if there were a personal complaint about them. So, we are trying to provide some avenue there where we can offer direct support for those staff.

We have put the education, training and awareness role very much into the nature of the business that particular lines are doing so that people can use case studies, and what have you, that are relevant to their line to try and understand the consequences of that. We see that, in essence, many of our staff are already performing down this path. They are already well aware of this path and we are trying to give them encouragement to continue in that sort of direction to treat people properly and keep them informed. So we are trying to draw out some fairly basic rules here about the messages we are getting from taxpayers. Taxpayers would like to know what is happening to their affairs, for example, and what progress is occurring. They would like to know whom they are dealing with. Those are the kinds of basic principles and we are drawing them out and saying that there are some fairly simple rules and, if you follow them, you will generally provide the essence of what a community is looking for when it is dealing with us. So we are aware of those. We have tried to take specific steps to address each one and we intend to continue to do those

surveys and to talk to staff to find whether we are meeting that need; if not, we will do our best to respond to whatever the deviation might show us.

Mr GRIFFIN—One thing that I am interested in which follows on from that is that in my experience—which may not be that great—talking about client focus in tax is something which is relatively new. As far as public perception goes, compliance and enforcement are very much the public perception of what tax is about—probably even now, even though there have been some changes. And there is that question of scepticism within tax in terms of staff, and adjusting that culture. As was mentioned earlier, there has not been a great deal of change in staff in recent years, so there is that stability. To give a relatively amusing analogy: when you are breeding pitbull terriers, what do you do when you say, ‘Now it is time to go and play with the kids.’ Can you make that adjustment?

Mr Jones—When you mention pitbull terriers, I am tempted to say that we also breed pussycats, but you would not see the point, I suppose. Beyond that, in the tax organisation over some time, there have probably been three major eras. It was basically a processing and enforcement agency, and that was what the community largely saw it as. Over recent years, we have tried very hard—and I think with some success, given the various pieces of feedback—to shift to a service and a compliance mix in the community. It has been a very challenging road to move the culture of the internal community to that point, but we have been reasonably successful in making an impact there.

The phase we are moving into now is to recognise our role as the community manager of that tax system and to start to get a balance in a wider community sense, rather than just, for example, the law enforcement versus service sense. It is a new phase, and I do not try and pretend that we are all there in that sense. We have got work to do here. We are moving into a new era of culture and that will take some effort. But people have shown themselves to be remarkably adaptable. We have done some fairly significant transition when you look at, for example, a range of new work that Mr Simpson mentioned earlier that we have been able to take on.

And another point that I just want to draw to your attention is that behind our strategies of putting a lot of effort into development, we are also trying to bring in a steady flow of recruits to try and keep that change stimulated in some way. There will always be a balance in those things in the trade-offs for experience, and all the rest of it, so it is not a simple formula driven activity; it requires some significant judgment. From the point of view of trying to manage that process, then, we are conscious that there is a mix of the development of people, culture, providing support tools, and trying to explain to people why the world is changing for them. That we are at least taking action on all those fronts is, in a general sense, the best answer I can provide.

Mr GRIFFIN—I have another question which I ask you to comment on, and then I will get Mr McDonald to follow up on it. My understanding with respect to Tax Pack is that over the last six years there has not really been a continual improvement in self-

lodgment figures. It is actually down from 1989, from 37 per cent to about 26 per cent in 1992. I am just wondering what the figures have been like since then. Would you like to comment on that issue and then I would like a comment from Mr McDonald in response to that and the earlier issue.

Mr Mobbs—My understanding, looking at the latest figures, is that, overall, for individual tax returns for about the last three years, the figures have been steady at 72 per cent agents and 28 per cent self-preparers. If you take out the self-employed business component of that, however, the figures change to 65 per cent agent, and 35 per cent themselves, and I think that that is relevant because we would expect people in business to be using the services of advisers or agents for other reasons than tax preparation. It has stabilised.

Our policy position is that people should believe that they have the choice. We would be neutral on that. The tax agents system is in place and is governed by legislation. There is independent research that is being conducted. Dr Jonathon Baldry and Kylie McKinstry of the Department of Economics, University of New England in New South Wales produced a report in 1995 seeking to explain the growth in the usage of tax agents by Australian personal income tax payers. Their hypothesis was potentially that the tax office, or the Tax Pack, was to blame.

The conclusion was that they could not ascribe it to that. There are a range of factors as to why people use agents, including, over a 10-year period, the changes in the pattern of disposable income and how people choose to spend their time and money. However, we hold the view, as Mr McDonald said, that Tax Pack is a reflection of the underlying complexity of the legislation, and the surveys that we are doing show us that we are doing a pretty reasonable job of reducing that complexity to something which is understandable and acceptable.

We would like to think that we could recall some of the agent lodging community because we have looked at the stats and there are certainly people who, on complexity alone, need not be with an agent. But you have to accept that that was their decision and it may have been done for reasons other than complexity.

Mr McDonald—There are a couple of issues that have been raised in the last couple of minutes and I am glad they have been. I will deal with the life inside first. I think that there is one other factor, a comfort factor, and it flows from the complexity of the legislation. When you get something like this and someone says, ‘You have got to use that to prepare your tax return,’ it does not matter how much knowledge you have; your first reaction is, ‘Oh, my God. You’ve got to be kidding.’

Mr Mobbs—We do not accept one lodged on that one.

Mr McDonald—It is certainly thick anyway. And so you go to a competent

adviser—or what you hope is a competent adviser. I must admit, a lot of my friends, who are professionals in their own right and are quite capable of self-preparing their returns, do not prepare them. They go to tax agents. They have the comfort factor of knowing that someone else is going to go through the information for them; that person is going to do all the calculations for them, and at the end of the day, they are getting competent and correct advice, and they are definitely quite comfortable with it.

The other side of the coin is that a lot of people do not want to spend time going through a 120- or a 110-page document to try and work out what their liability is. It is much easier to put it in the hands of a professional. I do not know the exact figures, but I suspect that those who self-prepare are very much the simple returns anyway. Maybe Chris Mobbs might be able to elaborate on that.

Certainly, there has been no real change over the last couple of years. In fact, I think that last year or the year before there was actually a perception by the mass return preparers in the tax agent field—the likes of ITP and H&R Block—that they were actually losing customers. So maybe there has been a change in the mix of tax agent clients. But, in broad terms, there certainly is a strong perception—whether it is right or wrong, or backed up by empirical evidence—that with the introduction of the Tax Pack a lot of people did go to tax agents for that comfort factor.

The other issues that I would just like to pick up on that have been raised by Peter Simpson were the tax auditors. Tax agents, also, have now been picked up in this client focus issue. Unfortunately, I think that they are actually missing from the report. To my mind, auditors are front-line troops. They are out there right at the coalface. They are dealing with taxpayers. I know Peter used the word starting with ‘c’ and did not want to elaborate on what the word was, but I think he meant ‘cheat’—

Mr Simpson—Or crook.

Mr McDonald—I do not know that all the people who are audited necessarily fall into that category. Some may. Some may have got it wrong, inadvertently; others may not. It might be interesting to have a look at the statistics, if they are available, on adjustments that are made and adjustments that are actually reversed. Nonetheless, I think there is a clear need for a very strong client focus at the auditor level. To pick up your point, they are terriers, they are bulldogs, and that is their job. They are meant to be out there.

But in terms of the taxpayers’ charter, that has to very much change. One of the primary issues in the taxpayers’ charter is that a taxpayer will be treated honestly until it is proved otherwise. That is going to pose an enormous challenge for auditors, to carry out their investigative work but to still treat taxpayers as honest taxpayers until the opposite becomes true.

The other issue is tax agents themselves. There has to be a very clear client focus

on tax agents. They are the meat in the sandwich. They are actually dealing with about 80 per cent, give or take a couple of percentage points, of all tax returns. If the agent is unduly affected by the approach of the tax officers, then that flows through to clients. We have had a number of instances in only the last couple of weeks where agents have actually contacted us and said that they have lost clients because of the approach that has been made by the tax office. That is not true in all cases, but it certainly does raise a very strong area of concern. It is not just your general inquiries area, it is not just your correspondence and it is not just the taxpayers' charter. It is the approach of your front-line troops.

CHAIR—Can I get a clarification on that point? Are you saying that tax agents have lost clients because of treatment by the tax office of that tax agent, not the taxpayer?

Mr McDonald—That is certainly the feedback we have had from some agents. There is a program in place right now that aims at auditing the tax agent to see whether or not the information he is putting in returns is correct. As a result of that process, it does flow through to the clients themselves. They know that tax agent X is being targeted. A lot of clients will not go to that tax agent for that particular reason.

They may have had their claims adjusted. They may not have. It does reflect on people's perception, though. No-one in their right mind is going to go to a used car dealer if they have heard bad reports about that used car dealer, regardless of whether those reports are true. So there is a very definite need for this client focus to be not only on the taxpayer himself but on any other intermediary you are actually dealing with.

Mr GRIFFIN—I remember talking to one tax agent who had a discussion with someone from tax about the fact that there are curves in terms of what they are actually submitting and that they will be examining the curve in terms of the average levels in respect of claims, et cetera, particularly types of taxpayers. If they are outside that curve, the microscope will be turned on, and that sort of stuff.

Mr McDonald—That is true. That is basically how this particular project is working. There is this analysis to identify those agents who fall outside of the norm. The mere fact that you fall outside of the norm, of course, does not mean that the returns you lodge are false or that the returns themselves are crooked, but there is a reflection that flows through to the clients. No-one wants to be targeted or go to an agent that is being targeted. So there is that perception. It is a very fine line that has to be balanced, I think, between the need to run an investigative project to ensure that claims are accurate and then also taking into account not only the effect on agent himself but also the flowthrough effect on the taxpayers themselves.

CHAIR—Can we have a comment from the ATO on that, please?

Mr Holmes—We deliberately scoped tax agents out of our report for two reasons.

Firstly, we saw that there was a strategic relationship between the ATO and tax agents. Secondly, the tax agent groupings within Australia, as Mr McDonald has shown, have very effective peak bodies which can speak for them. We would not like it to be understood, though, that we are advocating that client service principles should only be applied to individuals. As the Auditor-General said earlier, we would like to see them applied throughout the wider APS, which is why we have been producing a better practice guide on this matter.

Mr Simpson—I am strongly aware of the point Mr McDonald is making. We are conscious of the concerns amongst the taxation community. Having said that though, it is quite clear that you cannot audit your way to compliance in any tax system by dealing with individuals. You have to look for leverage points, whether it is through industry bodies or whether it is through tax agents. It is quite clear that when over 70 per cent of individuals go to tax agents you look to that intermediary as a point of leverage to undertake the work. I think it is equally clear that there is a question of balance that needs to be addressed in these sorts of things. There is certainly never any intention on the part of the tax office to label anyone in the tax agent community by these processes as cheating or not doing the right thing. Equally, when we find tax agents who are doing that, who are not operating in a proper way, then it is clearly our responsibility to deal with that as we find it.

Others may have more knowledge but I am not aware that we are finding large numbers of tax agents where we have those sort of problems. Quite often where apparently abnormal figures appear, they are explained because of the particular clients that the taxpayer might have within particular industry groups or something like that—that they perhaps have higher than normal claim levels. But it is a process that we are aware of. Equally, I would expect more work of this type dealing through the agent intermediary to be undertaken into the future. So there is a question of managing that and getting a proper balance, which we are very conscious of.

Mr GRIFFIN—I want to change tack and go across to a comment Ms Vardon made earlier which was that, I think, in the region of about 20 million calls are received from teleservice centres per annum and your present capacity, you believe, is to handle 16 million calls. Firstly, what happens to the four million calls that are not being dealt with? Secondly, you touched on some issues around the question of what you are hoping to do to address that gathering capacity; could you expand on that?

Mr Humphreys—The precise number of calls is an estimate. We get a very large number of calls a day, around 150,000 per day, as Ms Vardon said. We handle over 60,000 of those calls per day. Obviously the true number of calls coming in per day is somewhere between 60,000 and 150,000 but a lot of those are redials. We do not know precisely how many, so we are estimating there.

Before some of the additional functions as a result of the Service Delivery Agency

came to us we had about 18 million calls a year. At that time, when we estimated that about 15 months ago, we were handling about 11½ million. We have built up already to handling around about 14 or so million. We will be up to around 18 million by the end of this year. That is based solely on the Department of Social Security's original workload. The other two million making the 20 million that Ms Vardon talked about would relate to the additional loads coming from DEETYA and the Department of Health and Family Services.

That increase in capacity to handle load from 11½ million up to 18 million to 20 million has been caused by putting a lot of effort in—money, people and also very significant technology change. We believe that we can achieve at least 20 per cent of some of the very simple calls—such as, 'Has my payment been deposited to my account for this fortnight's payment?' About 20 per cent of our calls can be handled by totally computer response means. In making that estimate of 20 per cent, I am allowing for the fact that a lot of people do not like actually dealing with computers and having them handled. I am assuming that only a certain percentage of people will actually deal with us in that way.

Mr GRIFFIN—So that is when you ring up and the phone tells you to press—

Mr Humphreys—Press button so and so and ultimately a computer voice will say after you have fed in your number and a pin number, 'Yes, your amount of \$250 was deposited to account so and so this morning,' or whatever. We believe 20 per cent of those calls will be handled that way. That is one of the ways we are making a jump from 11½ million to 20 million. All those things are scheduled to occur. As I say, we have already gone from 11½ million up to around the 14 million to 15 million. We will be up to 18 million to 20 million by the end of this year.

Ms Vardon—We are building more but, more importantly, we are reviewing why people ring. As I mentioned before, a lot of people are ringing because other parts of our organisation have made a mistake or an error and it is reworked. So we think that we can take a lot of those calls out if we can get the first letter or the first piece of advice or whatever it was correct. We think that there are probably a couple of million, given that on some weeks—we are doing a survey at the moment—between 20 and 60 per cent of calls in the morning can be because of a letter we have sent out that people are checking. Basically, some people do not trust us so they ring just to make sure. We have to build that out.

Mr GRIFFIN—Can I get a brief comment from DSS and then from the ATO on the recommendations made by ANAO, which I do understand both organisations are in agreement with? Do you have any concerns about those recommendations, and how soon do you think there will be obvious signs of improvement and implementation of those recommendations?

Ms Vardon—We do not have any reservations about any of the recommendations. I am happy to go through them specifically but we have identified in each of the recommendations a set of activities. I went through some of them including the protocol and it is only the beginning. All of them will be taken into account in the strategy that we are developing for our board to consider. I think about a half of them are already in place.

Mr Simpson—We had no difficulty with the recommendations as a general comment. We were already heading in the direction of the majority of the recommendations and it was just a question of keeping on going. There were some others with which we agreed on the basis that more could and should be done, where we got real direction from the recommendations. There were a couple, I believe, where we did qualify our agreement to some extent but not to significantly alter the general direction.

Mr GRIFFIN—Does anyone else want to comment on Mr McDonald's comment regarding tax and whether the ANAO wants to comment? You do not have to.

Mr McDonald—I was quite heartened that the tax office has predominantly endorsed I think almost 100 per cent of the recommendations that have been made by the ANAO. I think that is a good first step, but it is only the first step. I think there has to be continual improvement in client focus, picking up on, hopefully, a lot of the issues that I have attempted to raise here today. The taxpayers' charter is just the start of the process. I think a lot of people think it is the end of the process; it is not. It sets the goal that you have to continually strive for. Just when you think you have got there, there is another step that you have to take.

Someone said to me not so long ago that satisfied customers leave. Unfortunately, taxpayers do not have that choice. Death might be the only way out but I am not advocating that. If satisfied customers do leave, then you have to be striving to give a level of service that is beyond their expectations, and I think that is the challenge for the tax office.

CHAIR—I want to raise a point about the preparation of correspondence. As members of parliament, we see letters received from DSS and ATO that are just so complex. When these people bring those problems to us, if we cannot understand them as MPs, what chance have they got? Is there anything in train to put communications to clients in plain simple English so that they will understand them? Can I have a comment from DSS and ATO?

Ms Vardon—I am very happy to say that this has got to be our No. 1 priority, and we are dealing with it. We think that probably it will be better for us to send people statements, like a bank account, rather than complex letters, so that it is very clearly laid out what everyone's entitlements are. We often find that two parts of the computer system are sending out letters to the same family. We have to work out how to integrate that. Some mothers will get five letters on the one day because they have five children. There

has to be a better integration of all of those things. We have got a team on it full time. The first thing we did was change the word 'advices' to 'letters' so that we reminded ourselves we were sending people letters, not advices. We are reviewing every single thing that we do—every single letter. We think the language should be easily understood.

CHAIR—Has this been reviewed from within or are you getting some outside help?

Ms Vardon—From within, but we are using people from outside to help us, particularly people who write. We have found a very good writer of English. You would think the bureaucracy could do that, but we have found somebody in Victoria who is hired by big companies to write simply so that people will understand.

We are also challenging whether we need to send out so many letters. For example, we understand that a person on a pension in New Zealand gets a letter once every five years. We seem to send out letters often. One of our issues—and I should put it on the table—is that a lot of the contacts that we need to make are prescribed in the legislation. In hindsight, some of that correspondence is not necessary. We are also looking to come back to the government in relation to what letters really are necessary. So there is a lot of activity on this.

Mr Simpson—I hear the same messages, but I might ask Mr Mobbs to respond.

Mr Mobbs—On the individual side, we had a number of project schedules to review our standard letters. Interestingly, we have done the first phase of causal analysis—why people ring us—and they do not turn up on our general inquiries line because they have specific people to call who have been identified on the letters. But we do know that our letters are under par. So we were planning to review them. There are a very significant number of them. Fortunately, technology has come to our assistance to accelerate the process, because our computer people are changing our computer platform and telling us that our letters will not port across to the new platform. So they all have to be reviewed in the next three or four months. I would expect to see a big improvement.

We do have someone in the organisation who can help people to write in plain English. However, having a teacher and having good pupils are two different things. That is an ongoing problem for us. The only way we can see through that is to exercise supervision from a centre of excellence rather than trying to turn our letter authors overnight into plain English people. You should see a big improvement from the tax office within six months.

CHAIR—Mr Simpson, did you want to say something else?

Mr Simpson—I just wanted to correct the record. When I talked about graduates before, I said that we got them through the list at the Department of Industrial Relations.

It was, of course, DEETYA.

CHAIR—Mr McPhee, would you like the opportunity to say anything in conclusion?

Mr McPhee—I think pursuing a client focus is not a journey but very much a pilgrimage. We were very pleased with the attitude of both departments when we first suggested this audit, and during the course of the audit both agencies responded very constructively. So it encourages us that action is being taken on this very important front.

CHAIR—Thank you very much for attending.

Evidence was then taken in camera -

Luncheon adjournment

[14.07 p.m.]

BROOME, Mr John Harold, Chair, National Crime Authority, GPO Box 5260, Sydney, New South Wales 2001

GOODCHILD, Mr Kenneth, Director, Financial Investigations, National Crime Authority, PO Box 5260, Sydney, New South Wales 2001

HAWKE, Mr Dene, General Manager, Corporate, National Crime Authority, GPO Box 238E, Melbourne, Victoria 3000

BROWN, Mr Paul, Federal Agent, Operations Policy, Australian Federal Police, PO Box 401, Canberra, Australian Capital Territory 2600

TYRIE, Mr Edwin, Federal Agent, Director, National Operational Coordination Centre, PO Box 401, Canberra, Australian Capital Territory 2600

DABB, Mr Geoffrey Preston Morrison, First Assistant Secretary, Criminal Law Division, Attorney-General's Department, Robert Garran Offices, National Circuit, Barton, Australian Capital Territory 2600

WILSON, Ms Judith, Principal Government Lawyer, Criminal Justice Branch, Criminal Law Division, Attorney-General's Department, Robert Garran Offices, National Circuit, Barton, Australian Capital Territory 2600

GRAY, Mr Geoffrey, Assistant Director, Criminal Assets Head Office, Commonwealth Director of Public Prosecutions, 4 Marcus Clarke Street, Canberra, Australian Capital Territory 2600

LORKIN, Mr Edwin, J., Associate Director, Commonwealth Director of Public Prosecutions, 4 Marcus Clarke Street, Canberra, Australian Capital Territory 2600

PINNER, Mr Graham Charles, Deputy Director, Money Laundering Targeting, Australian Transaction Reports and Analysis Centre, PO Box 5516W, West Chatswood, New South Wales 2065

BOYD, Mr Brian Thomas, Director, Performance Audit, Australian National Audit Office, Centenary House, 19 National Circuit, Barton, Australian Capital Territory

LEWIS, Mr Michael Kenneth, Executive Director, Performance Audit, Australian National Audit Office, Centenary House, 19 National Circuit, Barton, Australian Capital Territory

CHAIR—We resume our hearing. We come to the second session of today's public hearing. I must ask participants to strictly observe some procedural rules. Firstly, only members of the committee can put questions to the witnesses if this hearing is to constitute a formal proceeding of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion, I would ask them to direct their comments to me, as chair, and the committee will decide if it wishes to pursue the matter. It will not be possible for participants to directly respond to each other.

Secondly, to assist *Hansard*, witnesses should identify themselves whenever they wish to make a comment and, thirdly, given the length of the program, statements and comments by witnesses should be kept as brief and succinct as possible. I also remind you that today's proceedings are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. The evidence given today will be recorded by *Hansard* and will attract parliamentary privilege.

I refer any members of the press who are present to a committee statement about the broadcasting of proceedings. In particular, I draw the media's attention to the need to report fairly and accurately the proceedings of the committee. Copies of the committee's statement are available from the secretariat staff present at this hearing. The audit report being considered in this session is Audit Report No. 23 of 1996-97, *The Recovery of the proceeds of crime*.

I now welcome the Auditor-General, representatives from the Australian National Audit Office, and representatives from the Attorney-General's Department, the AFP, the National Crime Authority, the Director of Public Prosecutions and Australian Transaction Reports and Analysis Centre to the second session of today's hearing.

From the JCPA's perspective, the main purpose of this session is to examine the key issues identified in the audit report and whether any action has been taken, or is planned to be taken. With that background, I would like to provide the opportunity for a brief opening address from each of the agencies here today. I would invite, firstly, Mr Dabb from the Attorney-General's Department. Would you like to lead the way?

Mr Dabb—We do not have a formal statement to present. While the Attorney-General's Department has quite a large role in relation to proceeds of crime, the proceeds of crime legislation, and international arrangements relating to proceeds of crime, they are not matters to which any of the recommendations of this report were directed. They have been mainly on other agencies.

CHAIR—Would the AFP like to make a comment?

Mr Tyrie—The AFP welcomed the audit in terms of the reorganisation that was going on at the time and the participation that we had in relation to having it assist us in

establishing our position at the time. We welcome any questions on the recommendations that come out with the issues.

CHAIR—Would the DPP like to make a comment?

Mr Lorkin—The DPP likewise welcomed the audit. It is important to have operational matters such as these things examined objectively from time to time. That is what this audit did. We regard the proceeds of crime initiative as very important in the criminal justice system and, accordingly, we devote considerable resources to it. I would prefer otherwise to leave it to questions.

Mr Pinner—AUSTRAC was not subject to the audit. There is reference to some figures from consultants provided by audit, but we are very happy to answer any questions that the committee wishes.

Mr McPhee—The audit office selected this audit because recoveries relative to the estimates of the total amount crime were low. Improvements in recoveries would assist in attacking the financial base of crime. Thirdly, increases in the recovery of the proceeds of crime would benefit both the Commonwealth—

CHAIR—Mr McPhee, sorry, I forgot the NCA.

Mr Broome—The only comment I wish to make is to endorse the comments made by both the AFP and the DPP that we welcome the audit as an opportunity to have the issues examined. Given the time available to the committee, the best thing is to get on with the questions you have and try to respond to particular issues rather than to make some general comments now.

CHAIR—Thank you. Sorry, Mr McPhee.

Mr McPhee—That is okay, Mr Chairman. Following on everyone else, I will try and keep it quite brief. Certainly, the audit sought to assess the management of the investigation and recovery of the proceeds of crime. The audit criteria were developed in consultation with the agencies that agreed that it represented an efficient and effective approach. We took a random sample of 24 AFP cases and 12 NCA major crime cases to test actual performance against this model. We also examined six additional cases which were regarded by the agencies as being highly successful as a control sample.

Overall, we found that in most cases, some action had been taken in relation to recovering the proceeds of crime. Nevertheless, there was room for improvement, particularly in the AFP. However, it must be remembered that the AFP operating environment is very different from that of the NCA. The NCA deals with relatively few cases that are referred to it by an intergovernmental committee, whereas the AFP has a much larger number and variety of cases to deal with.

When the proceeds of crime legislation was passed, the government expected significant revenue to be returned to the Commonwealth. Although some estimates put the value of criminal activity at between \$4.2 billion and \$4.7 billion per annum, the Commonwealth has only received some \$36 million over the six years the Proceeds of Crime Act has been in operation. The ANAO recognises that there is a range of environmental policy and procedural factors that play here, but the information is not available to measure the impact of these factors on the amount recovered.

The specific areas where improvements could be made, in our view, were broadly in terms of corporate planning, case management and, in some areas, in relation to the technical skills for complex proceeds of crime investigation. In response to the audit, the agencies mainly agreed in principle with the recommendations, and there were no disagreed recommendations. Mike Lewis and Brian Boyd, on my left, were the senior audit people involved in the audit.

CHAIR—Thank you, Mr McPhee. This is a general question to everybody: next week when the budget comes down, where do I look for the figure which will show me the recovery of the proceeds of crime from last year and the estimates for next year? Can anyone tell me?

Mr Broome—I think the answer is that you will not find it in the budget. You will find it in the annual reports of agencies in terms of reporting on their particular outcomes, unless the Attorney-General's Department can advise me whether there is something I am unaware of.

Mr McPhee—I imagine that it would be in the revenue estimates, but whether it is separately identified is probably the issue.

Mr Dabb—Under the amendment to the trust fund legislation, the excess, so to speak, in the trust fund is to be transferred to consolidated revenue. The Attorney-General determines what amount is available to be transferred, and that basically is, under present practice, the whole of the amount in the trust fund, except for a small amount that might be needed to honour certain other working arrangements. The Attorney-General is expected to make a determination. The amount that had built up while this process was in train is about \$9 million. But as to how that will be actually reflected in the budget papers, I am not sure; that depends on how they are organised.

Mr GEORGIU—Mr Pinner, on page 3 of the audit report, it says that AUSTRAC estimates \$4.2 billion to \$4.7 billion worth of criminal activity. Then it says that audited agencies estimate that less than 10 per cent falls within the Commonwealth's sphere of responsibility. What is the basis for that 10 per cent figure in \$4.7 billion?

Mr Pinner—Mr Georgiou, the figures that are provided in the report relate to a report prepared for AUSTRAC by a consultant who looked at various methodologies of

determining a figure. He came up with a range of figures. In fact, his preferred figure, the figure that he most relied upon, was one of \$3½ billion. In terms of the break-up of those figures—he went through about six different criteria to source these figures—many relate to crimes committed. For the most part, those crimes relate to state-type crimes, although they do cover areas that fall within the Commonwealth's province, such as fraud and drug offences. But, in looking at those figures, the consultant did not, from our standpoint, differentiate between Commonwealth offences and state offences. So AUSTRAC does not have a figure that indicates the split up in relation to those various figures that he looked at.

Mr GEORGIU—So there is no base on which you can actually say, of the 3.5 or 4.5 or 4.7, that 10 per cent falls under the Commonwealth jurisdiction and that, therefore, taking a simple slide through its 10 per cent of 4.5 or 3.5—because that is quite important number in engaging effectiveness—

Mr Pinner—AUSTRAC certainly cannot do that. I do not know whether the consultant was asked to do that. From our standpoint, we are providing information to both federal and state agencies and that was not an important issue for us.

Mr GEORGIU—Can I ask ANAO where that 10 per cent came from?

Mr Lewis—Both the AFP and NCA suggested that less than 10 per cent was the Commonwealth's area of responsibility.

Mr GEORGIU—Was there any basis for that when they gave this figure?

Mr Tyrie—It was a guesstimate.

Mr GEORGIU—The audit office states that \$36 million has been recovered from proceeds of crime between 1989-90 and 1995-96. Could I just get from either the NCA or the AFP, or both, what component was contributed by the direct result of the NCA's proceeds of crime, and what component was contributed by the direct result of the Federal Police activities?

Mr Broome—As far as the NCA is concerned, the amounts realised by the time at which the last annual report to parliament was presented for the Commonwealth Proceeds of Crime Act, were \$15,318,064 directly out of NCA results. There was a further amount realised through the Commonwealth Customs Act, in relation to various property restrained or forfeited or pecuniary penalties realised, of \$5,800,000. At this stage, under state acts, there were no specific amounts contributed directly to NCA activities. There are some other amounts in relation to state taxation realisation, and so on.

Mr Tyrie—In answer to your question for the period 1989 to 1996 which the \$36 million covers, I would have to take it on notice and come back.

Mr GEORGIU—Is it possible to get an answer because there is, I understand from the ANAO, some uncertainty between the AFP and the NCA about who got what. I would like some clarification of the divvy. Can you tell me when the \$15.3 million under Commonwealth POC Act was realised?

Mr Broome—Over the period in which the legislation has been in effect I have not got a year by year breakup, although Mr Goodchild may be able to assist you.

Mr Goodchild—I cannot give you a definite time but I would say that by the time those amounts were realised, they were mainly for two large cases which probably came to conclusion in about 1993.

Mr Broome—Certainly, a year by year breakup will do that. The other point, of course, that we need to make is that because Commonwealth legislation in relation to proceeds of crime is conviction based, unlike the case in some state jurisdictions, clearly the realisation does not take place until after the matters are concluded. That can be a significant period of time after the matters have first come to our attention.

CHAIR—Do you have an estimate of how much you consider is in limbo at the moment?

Mr Broome—The difficulty with answering that question—and I think this is part of the problem that the audit office had with the process as well—is that there are substantial amounts which have been constrained over a period of time in respect of which pecuniary penalty orders have been issued by the courts. Whether at some stage it will be possible to recover all of those amounts depends on a whole range of circumstances. Where there are physical assets which are restrained, there is a reasonable chance of them being realised. Where, however, you have pecuniary penalty orders being imposed which may be a measure to the court's satisfaction of the volume of criminal activity, it does not necessarily follow that the assets are still within the jurisdiction—and, in fact, increasingly, they are not.

Mr GEORGIU—Can I follow up by asking if, as I understand it, in matters 12 and 18 the \$15.3 million was confiscated, or whatever, under the POC Act, what greater recoveries over that \$15.3 million realised in 1993-94 from two cases has the NCA actually made—what recoveries and what quantum?

Mr Broome—As I said, we are talking about, in large part, cases which will have been dealt with—and perhaps the DPP would have a view on this—at least two years ago in terms of when arrests and activity were taking place before the matters are likely to show up as being realised.

Mr GEORGIU—Just to date.

Mr Broome—Yes, I appreciate the point. In terms of other amounts, I have some figures in relation to current amounts which are restrained. That is not answering your question, but I will give you a list of all of the amounts in respect of each year and that will presumably answer the question in terms of how much has been obtained each year. Obviously, there was some lead time from when the legislation came into effect, as well, before recoveries were taken.

Mr GEORGIU—All I am trying to sort out is where the audit office says \$36 million, and two cases yielded \$15.3 million in 1993-94. What other recoveries have actually been made by the NCA under the Proceeds of Crime Act? I appreciate that there may be millions in the pipeline, but what moneys additional to those two cases in 1993-94 of \$15.3 million has the NCA recovered?

Mr Broome—We have not recovered more than the amounts shown in the report of \$15.3 million. What we have done is obtain a series of orders in relation to property being restrained, and so on, which is a much greater amount. As I said, the answer to the question of how much it has recovered under Commonwealth proceeds of crime as of last financial year is \$15,318,064.

Mr GRIFFIN—You mentioned two cases.

Mr Broome—There are two main cases, but there are other cases.

Mr GRIFFIN—That was not clear and I missed that point before. You are saying there are two main cases that have brought together most of the \$15.3 million, but there were other cases which made up small components of that \$15.3 million figure?

Mr Goodchild—Yes.

Mr Broome—There were other cases in which there were other amounts recovered, by the states, by other Commonwealth agencies or, indeed, by some international agencies as a direct result of investigations.

Mr GEORGIU—Yes. But I am still unclear. With the exception of the \$15.3 million recovered as an outcome of matters 12 and 18, what other amounts of money has the NCA recovered from 1989-90 to 1995-96? I am trying to get a fix on what belongs. Has any additional money been recovered?

Mr Broome—Yes. The other \$5.8 million that I mentioned, when I referred to what is table 3 of the authority's 1995-96 annual report, was, in fact, realised, but under the Commonwealth Customs Act.

Mr GEORGIU—So, in total, under the Proceeds of Crime Act and the Customs Act, the NCA has recovered \$20.8?

Mr Broome—Yes.

Mr GEORGIU—And the AFP can come back to me with their component of the \$36 million?

Mr Tyrie—Yes.

Mr GEORGIU—There is a reference in the report, at 4.13, page 26, which says:

Although the NCA has a wide range of internal reporting mechanisms the documentation examined by ANAO was not adequate to confirm that project management of the recovery of the proceeds of crime was conducted in a systematic manner

Can you cast light on why it was possible for the ANAO to make that statement?

Mr Broome—All I can do is contrast it with our other finding which was that in every investigation which they carried out, the audit office found that proceeds of crime were an inherent and essential part of the operational activities. Whether moneys were actually recovered, of course, is a very different question that turns on other issues. Certainly, my response is to say that in every operation that the authority conducts, there is a high priority given to identifying whether the proceed of crime can be recovered and, if so, how that might best be achieved. That is a part of standard operating approach and it is certainly a major focus of the authority's activities now.

Some of the matters which the audit office examined were, of course, matters which had some antiquity about them, I think it is fair to say. They do not necessarily affect current practice, because it was agreed with the audit office that no current operational matters would form the basis of the audit.

Mr GEORGIU—Does the notion of antiquity actually apply over the last seven years?

Mr Broome—It does when you are sitting where I am, Mr Georgiou, where I am being consistently asked to answer for the activities of an authority, sometimes by two or three of my predecessors. I can only answer for what we are doing now.

Mr GEORGIU—So the path of institutional leadership is difficult indeed.

Mr Broome—Yes.

Mr GEORGIU—Can I refer you then to the table which says 'Operational Planning and Recovery of Proceeds of Crime' on page 19. It states:

. . . merits of attempting to recover the proceeds of crime were considered as parts of planning . . . 67 per cent . . .

Are you querying that?

Mr Broome—The 67 per cent relates to what is described as merits of attempting to recover the proceeds of crime considered as part of planning. I am not quite sure what that specifically refers to. I am saying that current practice in recent years has been that the authority has always attempted in every investigation to identify opportunities for recovering proceeds of crime. There will be many occasions on which, for a whole range of reasons, that will not be possible, often because of the way an investigation actually turns on day to day events.

Mr GEORGIU—Could the ANAO clarify the position or explain—

Mr McPhee—I have just a general comment, if I may. We do have due process where we pass our reports via the agencies for comments to correct any misunderstandings, et cetera, and so we do seek to avoid any misunderstandings.

Mr Lewis—We recognise that the NCA considered at some stage of the process the recovery of the proceeds of crime. What the first part of table 2 is saying is that, from our examination of the random sample, it was not clear to us from the documentation that attempting to recover the proceeds of crime was considered as part of the planning process. It could well have been considered later on in the process, but the documentation was not there to show that it was considered at that particular stage.

Mr GEORGIU—So what is the bottom line? Is there any evidence in this which shows that it was invariably considered at some stage?

Mr Lewis—Yes. At some stage in all the NCA cases we looked at, recovering the proceeds of crime was considered. It was our view and the view of the agencies when we discussed the criteria with them that it is better to consider the recovery of the proceeds of crime early on in the process rather than later on in the process. In that way, you maximise your opportunities to recover the funds.

Mr GEORGIU—But in clarification, it is the ANAO's judgment that in all cases that the ANAO looked at, the NCA at some stage or another looked at recovering the proceeds of crime.

Mr Lewis—The NCA or the DPP—that would be correct?

Mr GEORGIU—I did not get that out of the report, I am afraid.

Mr Boyd—Are we talking about consideration as opposed to action?

Mr GEORGIU—Yes.

Mr Boyd—Consideration, yes.

Mr GEORGIU—That is an important point, but it is not totally clearly written in the text of the report. The ANAO report says:

Some action was taken in respect of recovery of proceeds of crime in all NCA cases.

Can the NCA tell me what range of actions is embraced by that notion of ‘action was taken in all cases’?

Mr Broome—In every case we will seek to identify whether, as a result of the criminal behaviour which has been identified, there are proceeds of crime and whether they are available for recovery. It is an axiomatic part of the process. In many cases one might form the judgment that, if there are assets, they are not available or that there may be no assets. It depends on the nature of the particular circumstances of each case.

The other thing which needs to be said is that one can often form a very strong view that there are assets which one would like to recover but they are in a situation where they are unrecoverable. You reach a point fairly quickly sometimes which says that you just do not spend more resources chasing something which is not going to be successful. Whenever we think there is a reasonable prospect of getting some proceeds, we will certainly do so.

Mr GEORGIU—I refer both the NCA and the AFP to the intentions of the Proceeds of Crime Act and the expectations that it would provide mechanisms to return significant revenue to the Commonwealth, result in significant financial benefit to the Commonwealth, and return benefits which greatly outweigh its administrative costs. Can you give me some assessment about whether, given your current state of knowledge, those expectations have been realised or, indeed, are capable of being realised? Has significant revenue been returned to the Commonwealth? Has there been a substantial financial benefit to the Commonwealth? Do the benefits greatly outweigh the administrative costs?

Mr Tyrie—Mr Georgiou, I would have said in hindsight that the return that was expected is not as significant as was perhaps anticipated. One has to remember that the Proceeds of Crime Act depends on the conviction and the predicate offence, and that is where the resource is devoted in the first place. In the majority of the cases which the AFP has referred to, I would say that the proceeds of crime available are minimal. Certainly, in relation to the fraud and general crime issues, I would think it is almost negligible. Sometimes that is not so, depending on particular cases.

The majority of proceeds of crime come from narcotic related matters and, as the NCA says, you can commence an investigation into matters which take years and lots of resources for a very minimal return in the end because you fail to convict. That has to be taken into consideration. I would say that, from the AFP’s perspective, the return in terms

of those figures named in the AUSTRAC report is nowhere near what the Commonwealth could expect from a return on proceeds of crime.

Mr Broome—Can I just add some points to that? The first point is that I do not think proceeds activities in isolation can or should be seen as an end in themselves. The point that the AFP has made has to be emphasised: the primary responsibility of the law enforcement agencies is to detect and identify criminal behaviour to gather admissible evidence, to obtain convictions and, if possible, to restrict access to and hopefully recover the proceeds of criminal behaviour, because it becomes the driving factor behind much of the criminal activity.

There has been a difference between expectation and what has happened, in part due to a whole range of factors, not the least of which are substantially greater opportunities available now to remove assets from the jurisdiction than there were 10 years ago. A great deal of what has happened in relation to the financial system, for quite proper reasons to open up Australia as part of a world economy, has simply meant that it is now much easier for people to transfer assets or value in a variety of forms overseas.

There was an expectation, at the time of the proceeds of crime legislation being drawn up, that criminals would in large part convert their profits into bricks and mortar which were realisable assets. Now they tend to buy other products. While plenty of examples of bricks and mortar assets have been recovered, the simple fact is that a lot of criminals are removing the proceeds of their criminal activities from the jurisdiction in very fast order. Is it worth while continuing? Undoubtedly, yes.

We have had, over the last 12 to 18 months, a significant number of successes, which are not yet through the court system and do not therefore show up in these results. I am more than happy to talk about them in closed sessions of the committee. They involve current criminal proceedings. They involve individuals currently before the court, so it would not be appropriate to talk about those matters in this sort of forum. We have developed, in consultation with other agencies and particularly using the information available through AUSTRAC, some very successful techniques that simply were not available. While the crooks have got smarter and had better opportunities, we have also lifted our game substantially and can produce some strong results.

It is worth while, but it is going to always be a situation where you are identifying new means, for example, of money laundering, and putting some obstacle in the way; then they try something different to overcome that. Sometimes you can be very successful; sometimes you can literally miss the assets almost by an inch or two. One of the important things that we put some emphasis into is cooperation with overseas agencies, because we have had some success in tracing assets and having them at least frozen in overseas jurisdictions. Getting them back is a different question.

CHAIR—Does DPP want to comment on the broad question?

Mr Lorkin—I would welcome that opportunity. There is a danger of sliding from that very elastic figure of \$4.5 billion or \$3.5 billion, which is a huge notional figure. One slides down from that to a reduced, but still huge, notional figure for Commonwealth matters to an assumption that the recovery rate of a gross figure of \$36 million equates with failure of performance in terms of a legislative intent. If that is what is being looked at, one ought to recognise that the comments in the second reading speech, with which the act was introduced, dealing with the recovery of funds at a non-cost level, come at about page 6.

The first five pages, concerned with the principles contained in subsection 1 of section 3 of the act, set out the objectives of the government initiative. If this government, and any subsequent government, intended to create a weapon which was best designed—if I can use that expression—to achieve easy forfeiture, it would not have moved for a conviction based model, which it has. As the chairman of the NCA has said, that leads to considerable lead time. It also means that one does not achieve forfeiture rates, or at least restriction rates, which are available prior to detection, investigation, prosecution and success. They are fair hurdles and the committee really has to judge these sorts of comments in that context.

Mr Broome—I give a very simple example of the kind of problem which means you may end up getting no result at all. Let us assume that any agency—the AFP or ourselves—are undertaking an operation in relation to what we suspect is criminal behaviour. Six or 12 months worth of work may have gone into this. We have people who we believe are principals, but on whom there is simply not sufficient evidence at a particular stage to charge. As Mr Lorkin has said, proceeds obviously involve getting a conviction first.

You might find one of our staff, or one of the AFP officers, involved in a surveillance activity on somebody who has been under suspicion and close investigation for 12 months. Totally without any expectation, that person suddenly finds themselves in a drug buying situation. It is 2 o'clock in the morning and someone has to make a decision on the spot whether to arrest the people or not. If they let the product run and both the drugs and the cash escape, there will be criticism. If the officers make an arrest, the associates will know very quickly that they may have to move their assets very rapidly, and they can do so these days. The cash can be out of the country in minutes. You do not have the luxury at 2 o'clock in the morning to go to a judge and get a restraining order as a prerequisite to the arrest. You have to make some judgments on the spot.

In those not particularly unusual kinds of circumstances, you may find that a very long, drawn-out and detailed investigation, which you hope would lead to substantial identification of major players in a criminal conspiracy and where the assets may be held, may be totally blown out of the water. But not to take action at that stage would equally leave the AFP or the NCA—or anybody else: state police forces—subject to substantial criticism. That is the kind of dilemma that officers have. You do not have the luxury of

running a meeting and considering your options. People have to make minute by minute judgments, and that happens. It is a long road to go down between running an operation of this kind and actually recovering the proceeds at the end.

Should we be doing better? Yes. I wish we were doing better. We can. We have developed techniques and approaches which are demonstrating their success. But as we become more successful in identifying money laundering techniques, there are others who will seek to design other ways of getting assets out of the jurisdiction, for example, and so it is a continuing process.

Mr GEORGIU—Is the bottom line that the Commonwealth over-expected but, at the end of the day, anything is better than nothing? It is not a relevant measurement of the efficacy of anything other than how much was recovered. It is not a measure of anything, it does not prove anything and it is not significant—that is not meant to be judgmental—in the overall fight against crime. Is that broadly it?

Mr Broome—In hindsight, I think there was an over-expectation. I still think it is very important and I think recovering proceeds is a very important outcome. An expectation that profitability may be removed from criminal enterprise is clearly a major deterrent effect. I think what is unfortunate, with great respect to the audit office, is the very use of a figure drawn from Professor Walker's work—be it \$4.2 million, \$4.7 million, \$3.5 million or anything of that kind—which, as all of the agencies involved in this audit made very clear, was an apples and oranges comparison in relation to Commonwealth responsibilities.

I think part of the problem is particularly focusing on that kind of number in the report as a size of the total level of criminal activity in the country. It may include, for example, hundreds of millions of dollars worth of the value of stolen vehicles. There is not going to be a proceeds of crime outcome in respect of that kind of criminal behaviour. I think that is part of the problem but I think it is also fair to say—and some of us were around at the time—that, yes, there were some expectations that proceeds would deliver some greater outcomes based on overseas experience but most of the overseas experience did not have a conviction-based system.

That raises a much more substantial policy question which, of course, the audit did not, by definition, explore. There was no opportunity during the audit to have the issues of whether different results would have been achieved with a different kind of system. The audit office took the view that they were in no position to question the policy reflected in the act and therefore they assumed that the judgments of recoveries were proper judgments and that the policy was correct. There was an assessment made against that foundation when 10 years of experience might well tell you that you needed to, at least, re-examine the framework. I am not saying change it but I am saying there was an assumption in this which I think is a somewhat dated assumption and that what we thought in 1986-87 is not necessarily correct today.

Mr GEORGIU—In defence of the audit office, which I am well known for coming to, is it not also a fact that the NCA itself used proceeds of crime as a major indicator of its success as recently as two years ago?

Mr Broome—Yes.

Mr BEDDALL—You have identified the fact that it is a conviction-based system and obviously you can get restraining orders, et cetera, but still how easy is that process? The convictions will take some time because they are complex matters. Even if people are not tipped off until they are charged, how hard is it to stop those assets being then moved even though the process has taken place?

Mr Broome—In my experience it is fairly difficult. The DPP are the ones who have to front the courts and get those orders. I do not want, in any sense, to undermine the difficulty of that task.

Mr Lorkin—It is not an area that judges are necessarily particularly comfortable with. They recognise the law and they probably do not embrace it as being a law which their law lecturers would have been interested in teaching them. It is relatively new jurisprudence still. You need to be well armed and you need to have extraordinarily well prepared financial data, and so it should be. After all, we are talking about penal sanctions. I am not being critical when I indicate the sort of environment in which we practise in that area.

As to whether or not it is too difficult, frankly I think that is something one would ruminate about with a glass of port and an open fire rather than here. I think it is just a little bit too anecdotal. The fact of the matter is that it is a process we have and it is a process that I think we deal with pretty satisfactorily. Is it important in terms of the future criminal justice environment? Absolutely. The last thing criminals want, apart from the slam of the gaol door, is to find that their criminal endeavours have netted them nothing.

So I think it is a very significant weapon and, as time goes by, we are no doubt refining our capacity to deal with it better. The fact of movements of funds electronically, et cetera, is a great difficulty and we will find that becoming more and more complex and more and more the subject of development, and AUSTRAC is important there. I know in such an environment, it is very much a key issue for the agencies. They are very aware that that is something that we have to plan for very carefully. In the end, I think all of us are reasonably confident, but it is a difficult environment.

CHAIR—Mr McPhee, do you want to respond to comments by the NCA?

Mr McPhee—I really just wanted to make a comment about the figure in relation to criminal activity. The other side of the coin is that many readers of our reports actually like to try and get an understanding of the dimensions of some of the tasks and programs

we are dealing with. We seek to do that and we sought to get the best estimates that we could through consultation with the agencies, but we accept that this can only be a broad figure.

CHAIR—Can somebody define for me what ‘administrative costs’ means in those three dot points? The document states that the return benefits greatly outweigh its administrative costs. Does that include the cost of prosecution? It is on page 5 of the audit report.

Mr Lorkin—I do not know the answer, but I imagine it might.

CHAIR—Can I ask Attorney-General’s whether the department is giving consideration to that policy of conviction based prosecutions and if they intend making recommendations to government?

Mr Dabb—No, there is no current work being done on revising that particular approach. I think only one Australian jurisdiction, that is New South Wales, does have provision for non-conviction based forfeiture. There is provision for it in the Customs Act to a very limited extent. The system we have of conviction based forfeiture is the common one that most countries with systems similar to Australia have. The Americans do place quite a bit of reliance on non-conviction based systems. Mutual assistance, that is the machinery for international cooperation following transfers of money and getting bank accounts frozen elsewhere, generally only applies to conviction based forfeiture, which is the system that is common to most countries.

I might say that some countries do not even have conviction based forfeiture. It is a relatively new development. It is embodied in the United Nations drug trafficking convention. It is one of the things that members commit themselves to do to set up a system like this. It is also in the 40 recommendations of the so-called financial action task force, which is an international body that works on countering international money laundering. I think for those international reasons it is here to stay more or less in this form. To move to non-conviction based would be a considerable policy step and it is not under consideration at the moment.

Mr GRIFFIN—I am conscious of the time in the circumstances, but I have a question which might be a bit of a long one. In reading through the report, in terms of the recommendations, as I understand it, generally there has been agreement in principle to all the recommendations. However, I note on some occasions there is agreement in principle, but then there is a point raised as to why in fact it does not really apply or a point that we are already doing it or something like that. What I would like to do is very quickly—given the time constraints—go through each of the recommendations and just get a comment from AFP, NCA, DPP—if it relates—and ANAO in response to those comments. If anyone else wants to hop in, then fine, but time is getting away from us. Recommendation 1, paragraph 2.16 states:

The ANAO recommends:

that the AFP and DPP allocate higher priority to developing up-to-date corporate plans; and agencies develop a full range of performance indicators relevant to the objectives and strategies identified in their corporate plans for internal and external use and report fully against them as part of their accountability, particularly for outcomes.

Could I get a quick comment from each organisation on that?

CHAIR—I think it would be quicker if each agency pointed out where they disagree with the auditor's report, rather than agree.

Mr GRIFFIN—We will do it that way if you like, but what I would like to know is what is happening about it. As deputy chair of this committee I always worry when I see agreement in principle. I am not saying there is anything wrong with it at all, but agreement in principle in my experience with some of these reports sometimes is, 'Yes, that is nice, but. . .' and that is what I am worried about. Can I have a comment on the recommendations as a whole in terms of what is happening around them? If it is agreement in principle but the principle is a bit of a problem, could I get some comment on why and also a comment from ANAO in response?

Mr Tyrie—The AFP gave an explanation in each case where it agreed in principle. In general terms it was an agreement in principle, because the ANAO audit examined matters which in actual fact were being addressed by the AFP. We started a major reform process in 1994 addressing a number of the issues, accepted what the ANAO had said, but then explained in actual fact what we were doing about it. We did not disagree with them. We agreed in principle with every one of the recommendations and gave an explanation in the body of our response as to how we were addressing these issues.

Mr GRIFFIN—But it is agreeing and then doing it, is it not? That is what you are saying.

Mr Tyrie—Yes, and that is the case in every one of the recommendations as far as the AFP is concerned.

Mr GRIFFIN—Is it audit's view that that is what is happening?

Mr Lewis—We obviously have not gone back and done a follow-up audit, but we are certainly very pleased to hear that the AFP is actually implementing these recommendations. We hope they found them useful.

Mr Broome—As far as the NCA is concerned, the principal reason why we put in comments such as 'agree in principle' was that in a number of cases we believed we were already doing it. To say anything other than that was going to lead to the imputation that

in fact it was not being done at the outset. For example, when you have a recommendation about encouraging a better focus on outcomes, it is very hard to disagree with that, but it suggests that there was not a significant focus at the outset, which we did not accept.

If you take recommendation 6, which talks about the AFP and NCA accepting prime responsibility with assistance from DPP at strategic level for collection and analysis, we are doing all that. We have been, but since the audit we have now amended the memorandum of understanding with the DPP and it now clearly reflects that. I think there is furious agreement about the recommendations.

Mr GRIFFIN—That always worries us, actually.

Mr Broome—I always prefer furious agreement to agreement in principle.

Mr GEORGIU—It usually means we do not want to fight about this.

Mr Lorkin—From the DPP's perspective, where there is an in principle statement it is explained as to why. The corporate plan we have done and we have done the MOU with the NCA. The performance indicators are more complex. They are being done. I cannot give you a time, but we are concerned to achieve it. To that extent, I found that aspect of the report the most helpful from a management perspective, because it really did focus one's attention on the need to have performance indicators of utility rather than performance indicators that sound good. Of course, when you start to undertake that task it is not as simple as one would hope. That is the principal area outstanding.

Mr Gray—Yes.

CHAIR—Do you want to make a general comment?

Mr McPhee—The audit is intended to be a stimulus for agency action and help them improve their own administration. It sounds like a positive result and that is how it was intended.

Mr GRIFFIN—I am looking at page 28, paragraph 4.23, which is a comment in response to recommendation 3 from the NCA. About halfway through the paragraph it states:

NCA does not agree that it has not been able to monitor the items listed under paragraph 4.29 without a generic case management system in place.

That is not directly in contradiction with the recommendation, but it is the sort of qualification which makes me wonder what you mean. Are you confident with what the system is doing now in the circumstances, so you do not feel the need for this, or what? I am not sure.

Mr Broome—We and the AFP are in fact jointly working on what I believe will

be a substantially improved IT system which will help us to manage better both our intelligence analysis and our operational activities. We have been doing that work for quite some time, and it certainly predates the audit report. We have concern when a recommendation says that we should have a suitable case management information system: again, how could one disagree? Of course one should have a suitable case management system.

We believe that what we had did provide us with the specific information necessary to report, as we have been doing. However, we believe there is a lot more we can do in terms of our operational management through an improved system, and we have been working for quite some time to develop that kind of system. The qualification is aimed at not necessarily agreeing that the present is substantially ineffective but at pointing out that we are trying to in fact improve the system substantially. That is the kind of flavour that we are trying to convey, and I think that audit would accept that that is what is happening as far as on the ground operations are concerned.

Mr GRIFFIN—Could I get a comment from the ANAO on that? I was not sure that was their view of it, that is all.

Mr Lewis—I think it is a question of degree. Obviously, the NCA does have a case management system. There is also a management information system. We think there is room for improvement, and we are pleased to see that steps are being taken. It is particularly pleasing for us to see that it is an area of cooperation between the AFP and the NCA. They are jointly developing the case management system and the MIS.

Mr McPhee—Just a further comment: we took the decision to have six recommendations rather than 18 and it is going to be the case, when you put them in generic form, that each agency will have a different angle or perspective on a particular recommendation.

Mr GRIFFIN—Why did you take that decision?

Mr McPhee—Mainly because we think our recommendations have more impact by having a small number rather than by having pages and pages of them, basically. The message we have got back through survey work on our own reports is that a concise number of recommendations is preferred, rather than pages of them.

Mr GRIFFIN—We might need to have a talk about that later on.

CHAIR—We will wind up. I would like to thank everybody who came along to participate today. If any other issues arise that you need to give us information on, we are willing to take additional submissions by correspondence. Thank you all for coming today.

[3.17 p.m.]

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LUSH, Mr Peter John, ASRP—Army, Department of Defence, Russell Offices, Canberra, Australian Capital Territory

McCANN, Brigadier Raymond Leslie, Director General Accommodation and Works—Army, Department of Defence, Campbell Park Offices, Canberra, Australian Capital Territory 2600

O'BRIEN, Brigadier Kevin John, Director General Personnel Development—Army, Department of Defence, Russell Offices, Canberra, Australian Capital Territory

POWELL, Brigadier Roger Anthony, Director General, Force Development Land, Department of Defence, Russell Offices, Canberra, Australian Capital Territory

SHARP, Mr Peter, Inspector General, Department of Defence, National Capital Centre, 14 Moore Street, Canberra, Australian Capital Territory 2600

CHAIR—Welcome. I must ask participants to strictly observe a number of procedural rules. Firstly, only members of the committee can put questions to witnesses if this hearing is to constitute formal proceedings of the parliament and attract parliamentary privilege. If other participants wish to raise matters for discussion, I would ask them to direct their comments to me and then the committee will decide whether it wishes to pursue the matter. It will not be possible for participants to respond directly to each other.

I also remind you that today's hearings are legal proceedings of the parliament and warrant the same respect as the proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by *Hansard* and will attract parliamentary privilege.

I refer any members of the press who are present to a committee statement about broadcasting of proceedings. In particular, I draw the committee's attention to the need to report fairly and accurately the proceedings of the committee. Copies of the committee statement are available from the secretariat staff present at this hearing.

From the committee's perspective, the main purpose of this session is to examine the key issues identified in the audit report and consider whether any action has been taken or is planned to address the issues raised. With that background, I would like to give the opportunity for a brief opening address from the agencies before us. Major General Hartley, would you like to lead off?

Major Gen. Hartley—Thank you for the opportunity to address the committee. What we are considering today is part of a three-phase project. The first phase resulted from the 1987 White Paper which required the deployment of the 2nd Cavalry Regiment and a troop of tanks, largely from Holsworthy and Puckapunyal, to a new barracks in Darwin and the acquisition of the Mount Bunday training area.

The second phase, the results of which are still in train, was launched by the 1991 Force Structure Review, which had a major impact on Defence outcomes. This review, in addition to further developing Army's moves to the north, also laid down a two-ocean fleet basing policy as well as a major review of Defence-wide administrative arrangements.

The APIN arrangements which this report considers were part of this force structure review. The review itself required Army to consider a number of issues which had Army-wide implications, including the establishment of a ready reserve brigade. Indeed, no part of the Australian Army remained unaffected by this review.

The APIN project office was established to ensure that arrangements relating to the move of the brigade to Darwin were not lost in this overall review. We had not previously undertaken a move as complex as this before. The development of the 3rd Brigade at

Townsville in the mid-1960s was a far simpler arrangement. Many of the planning and management processes were somewhat immature. For instance, we did not have in place at the time an adequate costing and attribution arrangement, and many of our considerations were indicative only.

The movement of One Brigade was made more complex because of the range of capabilities that were involved and because we were to deploy to an area where there had been no significant military presence before, certainly not since World War II, and where there were also issues involving the Northern Territory government and the local community. For instance, we had to develop at a pace which had to be absorbed by the local community.

Subsequently, as we approached phase 3 of this development—that is, the Restructuring of the Army phase—we further developed Army's planning and management process. The result today is that there is no separate APIN project office; rather APIN is part of the complex Army development process, with APIN being managed separately within the various components of this process but, equally importantly, collectively as part of Army's total capability development concept.

This seeks to integrate the outcomes which are impacted on by people, training, facilities, equipment, maintenance, through-life support, sustainability and science and technology, to mention just some of the 18 planning factors involved, which embody both the regular and reserve force components. This is a complex business and all these components are interdependent.

The APIN element of this project, which embodies parts of all these components, is dealt with now in a holistic fashion. Policy is set out by the Chief of Army Senior Advisory Group and implemented by a one-star committee chaired by me in relation to Army's program and development. Overarching all these arrangements is the Army Plan which allows us to oversight the entire development process. Therefore, not having an APIN project officer is the result of an evolving and increasingly more adequate army planning and management process.

Phase 3, the Restructuring of the Army, is the latest part of Army's development. One Brigade, the headquarters of which was established in Darwin late last year, is responsible for trialling much of the new Army's doctrine, tactics, techniques, structure and equipment. As such, it will receive special attention. We can discuss this issue more fully, should you wish.

The Auditor-General's report has correctly identified deficiencies in Army's past planning and made useful recommendations for addressing them. Army has agreed with the recommendations. Indeed, much work has been done to overcome the identified deficiencies. I ask the committee to note that in some cases much had already been done before the problems were identified by the audit. I can also, of course, discuss these issues

more fully and indeed have already mentioned the fact that Army's management process has been further refined.

With the establishment of Headquarters 1 Brigade in Darwin late last year, there will be further oversight of this process. Indeed, I am confident that, together with the recent defence reform program initiatives, we will satisfy most of the requirements within the next two years and all requirements by the end of 1999 with the full development of the Bradshaw field training area. Mr Chairman, that completes the opening remarks I would wish to make. Thank you.

CHAIR—Thank you. Mr McPhee.

Mr McPhee—The ANAO selected the management of the army presence in the north project for audit because APIN represents a significant change to army's disposition of combat force. In addition, the facilities, married quarters and training areas required to support the force relocating to the north represent a significant investment exceeding \$830 million. The APIN project has not previously been subject to any audit coverage. The APIN project is about halfway through to planned completion in 2001 and units are being relocated in accordance with army's movement plan. Facilities have been constructed on schedule and within the construction budget. However, there have been overruns in operating costs and some shortcomings in planning and coordination of APIN implementation.

Army responded positively to the report and stated that it will assist in avoiding a recurrence of the APIN planning and execution difficulties during the implementation of the restructuring of the army initiative which was announced by the minister in late 1996. As has been indicated, army agreed with all of the recommendations.

Very broadly, Mr Chairman, as a result of the audit, we felt that Defence should focus greater attention on the planning processes, estimating and attributing costs for the project, consideration of climatic conditions, and some personnel issues arising from long-term postings in the tropics. The problems identified in this report could be potential areas of risk in similar future projects and we have suggested to army that they might be considered in this light.

Guy Reeve, on my left, and Tony Minchin were the senior audit staff involved in the audit and would be happy to respond further to the committee's questions.

CHAIR—Do you want to say a few words about how the Defence review will affect the APIN project?

Major Gen. Hartley—The recent Defence Efficiency Review?

CHAIR—Yes.

Major Gen. Hartley—It will certainly have an impact in a number of areas. There will be different arrangements, for instance, for the way we manage our facilities. There will also be a review of the corporate administrative arrangements which exist throughout the Darwin area and which will have an impact upon the three Services. In other words, there will be some rationalisation of those administrative reviews. I think, in broad, those would be the two major issues I would see at this stage.

Mr GEORGIU—There are lots of things in here and they are a bit disparate. Can I just start with one of the things that I think I have grasped and it is referred to in a number of pages in the report—page 11 and page 33. Elements of the armoured regiment which relocated to Darwin in 1995 returned in 1996 to their former training area in Victoria to conduct live fire and manoeuvre training. They need to do so annually until a suitable training area is available in 1999. Can I take it that this was not anticipated—or was it anticipated when they were sent up in the first place? Does it actually involve trips back and forth every year until the facilities are fixed? Thirdly, what is the cost of the relocation? Audit says, at page 33, that the cost of the relocation is unavailable. If I had had a bit more time with audit I would have pursued them on that, but can we get a cost for that relocation which presumably takes place for four years—1996, 1997, 1998, 1999—by two?

Major Gen. Hartley—To answer the second part of the question first, we may have to take that on notice, recognising that you are asking for the total cost which encompasses the property development facilities, the movement of people—you are looking for the total cost?

Mr GEORGIU—No; what I am looking for is the cost of the tanks going up north, then coming back to Victoria, then going back up north and then coming back to Victoria. What is the cost of that?

Major Gen. Hartley—I will answer the first part of the question and perhaps Brigadier McCann will answer the second part. I do not think we anticipated that we would need to bring back a squadron, roughly one-third of that regiment, each year. When we first went there we assumed that the regiment would be able to operate successfully, recognising that we were still to acquire the major training area which would give relief, essentially, to the use of Mount Bunday.

Mount Bunday is roughly three times the size of Puckapunyal, and looking at the size of the area we assumed that we would be able to operate our tanks successfully there until Bradshaw, the big training area, came on line. I think what fooled us was that we have had no experience of operating heavy armoured vehicles in the north in a sustained fashion. We have done so for short exercises in the past, usually about a month to five weeks in duration, but we have never had to do it in such a sustained way. We underestimated the environmental aspects, in particular the impact of the wet season, and the terrain itself.

The second issue which may have contributed to this is that we also assumed that we would be able to conduct live firing in particular on non-government, non-Commonwealth land. An embargo was placed on this subsequent to our moving to the north, which further restricted our ability. We return roughly a squadron of tanks each year—

CHAIR—An embargo was placed by whom?

Major Gen. Hartley—It was placed by the Chief of the Defence Force. We subsequently return a squadron each year which we also use to exercise elements of the brigade which have not yet moved to Darwin, in particular, the 5th/7th Battalion.

Mr GEORGIU—You said that you also return a squadron. Is that the same squadron?

Major Gen. Hartley—Yes, it is.

Mr GEORGIU—So the return is partly for training?

Major Gen. Hartley—Absolutely; and it trains elements, in particular the 5th/7th Infantry Battalion which is a mechanised force and which has to train with tanks. The 5th/7th will move to Darwin. It is planned to move to Darwin before the turn of the century and when it does that requirement will no longer exist as well. In effect, it was a subject of some misjudgment, but also we needed to bring a squadron back to continue to train elements of the brigade which had not yet deployed to the north.

Mr GEORGIU—Does that mean that, regardless of the unforeseen character of the terrain, and the live firing, et cetera, when you sent the tanks up there in the first place you knew that you would have to bring them back to train with the infantry?

Major Gen. Hartley—That is correct.

Mr GRIFFIN—They would have been coming back anyway?

Major Gen. Hartley—Yes.

Mr GRIFFIN—Wouldn't it have been cheaper to send the troops up there to train?

Major Gen. Hartley—The trouble is that if we do that we cannot really train as a regiment; we only train as part of a regiment. There was a further complication which involved some reservists, and it was better to train the reservists with their regiment in Darwin than back at Puckapunyal; it added to the retention of the reservists, for instance.

Mr GEORGIU—So, if you leave aside half the reasons for the squadron having to come back, it had always been planned by Army that you would be shipping a squadron of tanks up north and back over the whole period?

Major Gen. Hartley—My understanding is that that is the case.

Brig. McCann—The total program extends over a period of 10 years and it is a phased movement—a major unit at a time—so there will always be a period where we have major manoeuvre elements in both Darwin and Sydney or Puckapunyal, and either you bring people back or you take people north. Within that 10-year period there will be that requirement to maintain operational readiness requirements, because the brigade needs to train as a brigade, not as individual units.

Mr GEORGIU—The bottom line is that, despite audit's observations, you would have been moving backwards and forwards even if Mount Bunday was fine and even if your facilities were fine, so there is no unanticipated expenditure in that shift?

Major Gen. Hartley—That is correct.

Mr GEORGIU—On page 46 of army's comments it reads:

However, even if the environmental impacts of the northern climate had been fully appreciated, it is doubtful that the relocation of the armoured regiment could have been deferred until solutions were introduced.

I read that and I am not quite sure what that means. It is the very last sentence of page 46.

Brig. Grant—That is in reference to the issues raised by the audit team in regard to the risks to the health of the crews, the effects of heat on ammunition and the effects on the main gun system of the tank. More particularly, it is saying that we should have anticipated the need to aircondition the tanks before they went up. I think that is related directly to that issue of airconditioning of tanks.

Mr GEORGIU—I appreciate that it is complex but it must be very difficult not to anticipate the need to aircondition tanks that are designed for western Europe to send them to northern Australia.

Major Gen. Hartley—Yes. In hindsight that is probably a fair assessment but these tanks have operated at Puckapunyal, where, of course, the temperatures are quite high. What is missing at Puckapunyal is the extreme sense of humidity which there is north. Furthermore, we had exercised with tanks on a number of times in the Northern Territory but the exercises tended to be of short duration and therefore we had not been able to appreciate the full impact of lengthy deployment in this area.

Mr GRIFFIN—It is a question of length of deployment which has really created the problems in respect of health and with the ammunition?

Major Gen. Hartley—Yes.

Mr GEORGIU—With regard to all these non-anticipated compounding factors—Mount Bunday does not really work properly and we have to come back; it cost more than we anticipated in aggregate—do these compounding non-anticipations and newly discovered problems cast any doubt on the decision to move up there in the time frame that was chosen?

Major Gen. Hartley—No, I do not think so. I think part of the reason for, in fact, moving north was very much to determine these issues. At the time, our strategic guidance was that defence of Australia required an Army presence in the north. We did not have a large complex Army presence and certainly the types of forces which we had in Townsville were quite different from the forces which we would deploy to Darwin. We needed forces which had much higher degrees of ability and, indeed, because of our lack of sustained operating experience in that part of the world, a number of these issues came up. Having said all that, I believe that the investment which has taken place there now and the lessons we are learning will be invaluable.

Furthermore, troops operating in the tropics require considerable periods of acclimatisation. That is the experience from our point of view. There is no easier way of gaining that than having troops permanently stationed in the tropics. So I do not think so, despite having a number of problems. Most of the problems we are, in fact, well and truly overcoming.

Mr GEORGIU—One of the things that interested me was Mount Bunday. The ANAO report raises quite significant questions about its suitability as a training ground and its limited capacity to handle sub-unit manoeuvre training because of the impact of the armoured vehicles on the infrastructure and on the environment. The army itself noted this on a number of occasions—1991, 1994, 1996. Does the army still believe it can appropriately develop the site? Are you still planning to do so?

Major Gen. Hartley—I will start the answer to that question and I will get Brigadier McCann to finish off. Mount Bunday was essentially developed for the cavalry regiment and a small number of tanks. That was seen as, if you like, the first stage of a total training area requirement for the north. Since then, in early 1996, we required a new training area which is roughly about seven times the size of Mount Bunday. Bradshaw field training area will in fact meet all our requirements, and it was always anticipated that the brigade would need a major training area. In early 1996, we had an opportunity to buy, when a station which had roughly the area and the terrain characteristics that we wanted came up for sale. It was an opportunity buy. Therefore we will have established, by the end of 1999, a fully functional training area which will more than satisfy our

requirements and will give us the opportunity, more than likely, to be able to environmentally spell the ground in order for it to recover.

Mr GEORGIU—Does that mean that there will be no further development at Mount Bunday?

Major Gen. Hartley—Mount Bunday will still be used. It is within reasonable distance of Darwin. Bradshaw is 500 or 600 kilometres away. Different types of training will be undertaken at the different areas, but both will be required.

Brig. McCann—To elaborate on the answer about further development of Mount Bunday, we will undertake further development there. We are giving priority at this stage to the development of an environmental management information system. This is a system which will allow us to gauge more accurately the impacts of military use in real time. It is a database and decision making system. In the past, we really have not had that sort of system. We based our assessments on a number of judgments. We have already developed a prototype and tested it at Shoalwater Bay for exercise Tandem Thrust earlier this year. We will develop that system in conjunction with the Northern Territory government. The priority will go initially to the environmental management information system.

The other priorities will go to improving Mount Bunday as a static field firing range for the tanks. One of the problems at the moment is that we have an inadequate range in terms of length—1,200 metres—and, through some additional clearing and cutting and filling, we hope to get a static field range out to 4,000 metres. We have already installed some field firing target systems on the range and another 18 target sets have just arrived which will soon be installed. We will also instrument those target systems.

In answer to a previous question on returning to Puckapunyal, one of the reasons was to go back and undertake training with other elements of the brigade, but there were these deficiencies with Mount Bunday which we hoped to address by the measures I have just explained, and additional measures to install a moving target system; and we will be giving that priority this year, as well.

Mr GEORGIU—From reading this report, I would say that there seems to have been a compounding series of misanticipations about the impact on tanks, the cost of maintenance, the cost of sending tanks back for major repairs, and the issues of the inappropriateness of the training facilities and of facilities which are constructed and not used. I understand where you are coming from, but my sense from the response is that essentially a lot of these things took experience to fix. Where is the balance between experience and effective planning?

Major Gen. Hartley—That is an interesting issue. I think we have also got to acknowledge that we are planning things differently now from what we were, say, six or seven years ago. A great deal of this is the result of the force structure review which I

spoke about earlier, which tended to turn us upside down a bit, because we had a whole range of requirements to meet at the same time. Indeed, we were going through a more extensive planning process than we had probably undergone at any time in the past. That set in train a whole range of measures, most of which have matured today.

We would certainly do things quite differently today from what we have done in the past. There would be a much clearer identification of outcomes. There would be a much more elaborate sense of producing the directives which would bring about the research leading to the outcomes and which would cost the outcomes. Activity based management is a function which we now exercise regularly; we barely had that capability in 1991. And so on it goes.

Mr GEORGIU—I appreciate that. It is just that a number of things which have been registered have not actually been acted on—for example, the new logistics concept for APIN: in 1994 it was reported there had to be one; it is not there. It leads me to one other question, which is probably just ruminating. If army was under such pressure at the time that the move was made, it does not have leverage to say, ‘Guys, you’ve pushed us into overload. Why don’t you just back off this move, because if you let it go for a little while we’ll do a lot better two years down the track.’

I am not asking you to overrule politicians or anything, but if there was a recognition that army was being put under a huge number of demands which were testing it, couldn’t the advisory process have said, ‘We’d really love to do it, we agree totally with the concept, but if you give us a little bit of lead time, we’ll do a lot better’? Maybe that is a naive question.

Major Gen. Hartley—I do not think there is a yes or no answer to that, actually. I accept what you say. I suspect that at the time we thought we could do it. We launched ourselves off, remembering that this was going to be a 10-year development process. I think if we were confronted with those issues today—and quite clearly we are; the Defence review program will be just as challenging as that—we are in a much better position to handle them than we were then. I do not think I can answer the question much better than that.

Mr GEORGIU—That is fine. It was not a great question!

Mr BEDDALL—I have a broader question. I am fascinated by the fact that the initial estimated impact on Darwin is something like a 10 per cent increase in population. I note that that seems to be going well in terms of housing the people. How has the integration of defence personnel and families gone in the local community? Do you have some sort of liaison to try and work that out? It is not like moving them to Sydney. It is quite a big impact.

Major Gen. Hartley—I will start the answer on that, but others may wish to add

to it. Yes, that certainly has been a major effort, and a great deal of thought went into the impact that this move would have on the local community. There was considerable interaction with the Northern Territory community and, in turn, with local government and, in particular, the local economy. Clearly, the program of building up the brigade has been very much conditioned by how quickly the community could accept us.

Having said that, my understanding, and certainly everything I have seen, is that the brigade has integrated very well into Darwin. It clearly has brought a lot of money to the town. Military garrisons are not always comfortably thrust upon local communities, but the impression I have is that the military element of the brigade, including those who go up without families, has been well accepted by the people of Darwin. The family issue has been most interesting. I might ask Brigadier O'Brien, who is Director General, Personnel Development, to say a few words on that because, very clearly, that was a major consideration from our point of view.

Brig. O'Brien—We have done a number of surveys and collected some information about the families, which will be referred to in the report, and we are intending to follow up on those. Under the current recruiting strategies, we are also going out and surveying all young Australians—in fact, that project is to be launched shortly—about opinions about living in the north. What we are finding, in terms of hard data, is that separation rates in the Army are falling at present, which confuses the issue a bit, and that at the moment we are recruiting very strongly—in fact, we have waiting lists to join. So we have conflicting things there.

On the one hand, we all know that it is a long way away, it is hotter, it is uncomfortable, and all of those things. But, on the other hand, at the moment separation rates are down and attitudes towards joining are up. It is an area that we are looking into; we are very conscious of it. We look after all the soldiers and officers quite individually. We have a system whereby each person has a career adviser that he or she can speak to. We take into account special circumstances they put for their posting. We have all sorts of extra conditions available for people up there and we think it is working pretty well.

Mr GRIFFIN—How many people, plus their families, have you moved up there so far and how many more are to come in the next couple of years?

Major Gen. Hartley—The figures in the report are accurate. They show that, by the end of 1997, we will have moved up nearly 1,350 people. I do not think I have a list of families, but an order of perhaps twice that number would probably be fairly close. I can get that statistic if you wish to have it.

Mr GRIFFIN—No, I just wondered in passing.

Mr BEDDALL—What is the average length of enlistment when a soldier signs on?

Brig. O'Brien—Currently you sign on what we call an open-ended engagement system for four years. Then you can stay on as long as you like, but you have to give us six-months notice if you wish to leave. The average length of service at the moment is in the order of 10 years, taking into account that many of the officers serve 30 years. Many of the soldiers do their four years and go.

Mr BEDDALL—It may tie in with why you have very low separation rates. From friends I have had in the Territory, I hear seven years seems to be about the time that they decide to go back. So it is probably fitting in perfectly with the army.

Major Gen. Hartley—Anecdotally, we are told that Army spouses are sought after because they tend to stay longer than anybody else in the local community.

Mr GEORGIU—Could you give us some insight into the cost of addressing the problem with the tanks or the forms which you have taken, because I think there is more than one? I read something somewhere about umbrellas.

Brig. Grant—I can lump together the three issues raised there in answering your question. One was the risk of heat stress to the crews, as I mentioned before, the second was the effect of heat on ammunition and the third was the reduction of technical capability within the main weapons system.

We have had to very quickly solve the OH&S problem to the crews and have done a couple of things very early in the life of this project. The first one is to do with the crews. The tanks certainly get hot. Solar radiation on the hull, heat sources from inside the tank, the ambient temperature and, as the deputy chief said before, the humidity all conspire to create a fairly uncomfortable environment inside the tank. What we have done initially is change the work practices of the crews up there. In other words, we have acclimatised them properly. We have given them proper water routines and made sure they are drinking water. We spell them in a different manner, depending on the heat of the day or the heat in the tank and the sorts of operations they are on.

We have also undertaken what we call passive systems work to drain the heat that is coming from inside the tank and pump it outside. There is a hydraulic pump in the middle of the tank which heats up and that is very, very hot at times. It is very nice when you are in a cold climate, but not so flash in the north. We have also issued umbrellas. These are a useful device because they are especially designed to put on vehicles—in this case, tanks—and keep the solar radiation off the hulls. They are big umbrellas that are three metres in diameter. Each tank has two. They are useful for a range of things. Tradesmen, for example, can work under them when they are trying to change tracks or weapon systems, so they have a number of uses. They are built by a Swedish company.

In the future though, we will be putting an active system on the tank. That is simply an air conditioner. There has been a slight delay in getting this thing going because

we had hoped that the original equipment manufacturer, Krauss Maffei, would have been able to give us some steer. Interestingly, the tank which was built by them never came with an air conditioner. We bought it that way. They have fitted tanks with them for use in Bosnia, but we have not been able to take that adaptation, because it is not working very well. Funnily enough, in this country we have the technology to build a home grown airconditioning system which will go in the tank. At this stage the request for tender is on the streets for that airconditioner and we are having responses due back in a couple of weeks time. That, hopefully, will be installed next year.

In terms of giving crew comfort, the airconditioner and the passive systems will be put together. In fact, the passive systems are working pretty well at the moment and we have had very few incidents of people suffering from heat exhaustion that we had last year and the year before.

The airconditioning system also helps cool the ammunition. It is not that the ammunition is dangerous, because it can be heated a lot higher than this before it comes to some ignition point, it is simply that when you put the ammunition in the tank it has to take on the temperature of the turret. There is a sensing system there which feeds data into the computer and the ammunition has to be stabilised before the gun is aimed and fired. So it is going to help manage the use of that ammunition better.

The third thing is the gun system. Again, there is a sensing system there which senses the heat of the barrel of the gun. It is fed into the sighting system and that weapon system then fires as accurately as possible. If it is affected by heat on a particularly hot day, the crews are trained to overcome some mild or minor inaccuracies in the weapon system. That occurred even at places like Puckapunyal many years ago where in summer it can get up to 45 degrees Celsius.

In summary, what we are trying to do is to have an active cooling system, a passive cooling system, and we believe that that is going to solve the problem for the crew, the ammunition and the gun.

Mr GEORGIU—My problem is that if we sent them there to get used to fighting in tanks in those conditions but we have found they cannot fire their guns, the gun defaults, the aiming system defaults, they have got to shoot off one round to see where that goes before they adjust, how useful has three years of training been in tanks?

Brig. Grant—I could not answer that question, I am not an armoured corps person. They would have experienced those same sorts of effects.

Brig. Powell—I am a former commanding officer of the tank regiment so I can probably shed some light on your question. What we are talking about here is a matter of degree. The sorts of problems that Brigadier Grant has outlined are reasonably minor in nature. The inaccuracy of the weapon system in hot conditions is certainly not something

that is unusual to the north. As he has outlined, even at Puckapunyal in the hottest stages of the year, you still need to make adjustments for the conditions in which you are operating.

It is matter of a minor adjustment in the procedures of the crews in the vehicles in terms of ensuring the accuracy. The very nature of the ballistic computer and the interface with the crews and the equipment means that there is a certain degree of error that the crews have got to take account of when they use the weapon system.

We are not talking here about a problem that has caused us significant heartache. What we are talking about is becoming used to the extreme conditions in the north and you do not really get used to those conditions until you are operating up there for significant periods of time. Most of the occasions when we have operated in the past have been at the more pleasant times of the year in the north but now we are testing in all conditions and finding that there are some challenges, but they are not insurmountable.

Mr BEDDALL—Is the weapon system classified as a smart weapon system rather than when it was first installed? Has the weapon system been upgraded over time?

Brig. Powell—There have been very minor modifications, but, in essence, the weapon system is as we purchased it. There are some plans afoot to upgrade it so that it can be used in a night fighting sense, but, in essence, the weapon system on our tanks at the moment is as we purchased it.

Mr GEORGIU—Wouldn't you say you are going into more difficult periods for training? You train currently six months of the year?

Brig. Powell—No, we train all year round. What I am saying is in operating in the north in the past we have generally not operated at the extremes. When you get into the really extreme conditions, obviously the challenges are greater. By being up there and in the environment throughout the whole year, you therefore have to become accustomed to operating at any stage in the year.

Mr GEORGIU—It is just that I read somewhere that training was restricted to periods outside the wet season.

Brig. Powell—As a general rule, you do train outside the wet season, but we are talking here about the extremes.

CHAIR—One final area we have not covered is cost blow-outs. This is not unknown between this committee, the audit office and Defence department. The audit office found that the revised bids for funds for APIN in 1996-97 to 2001 exceeded the planned funding by an average of more than 40 per cent. What assurance can be given that future revisions of this order will not need to be made?

Major Gen. Hartley—Once again, Mr Chairman, I will start the answer to that question. I think we have learnt a lot since those early days. A lot of it dealt with, in fact, our process of actually costing activities and we really did not have an adequate basis on which to do that. We had neither the people trained nor the organisation in place to be able to do that. I would like to think that today we certainly can cost activities far more accurately.

Secondly, when we started this process we had a separate APIN fund and it was difficult to judge what could be attributed to that fund and what was a normal activity cost. What we have now, of course, is no APIN fund. We have consolidated all funding so that an account holder has responsibility for the total funding of that activity and therefore takes into account all the measures and the efficiencies that come about from that economy of scale. I think that is what I would say as an introduction. Around the table—Peter, do you want to say anything?

Mr Lush—I might just comment that at the start of APIN estimates were made, as has been described, at a time when we did have fairly immature costing regimes. We now do have somewhat improved costing regimes and are approaching activity based management. We are also on the eve of accrual accounting changes too which will indeed raise a few eyebrows. As a consequence, we have become more aware of the costs. It is important to accept that, whilst the costs have gone over in terms of the APIN estimates, the costs have been contained within Army such that we have adjusted accordingly priorities within our overall budget to achieve the objectives we are tasked to do. One also has to reflect that bids are often somewhat in excess of what they may genuinely warrant after they get closer examination through the command chain as well as in the Canberra resource management environment.

CHAIR—A final question: in percentage terms—just percentage—how much more expensive is it to operate a regiment in the north compared with the south?

Col. Ayling—It is difficult and there is not a straight algorithm that we can determine that cost. The development of activity based costing and activity based management has been mentioned. Specifically, in our implementation of restructuring the army, we have established a trials regime which was required by the minister. One of the objectives of that trials regime is deemed to be to determine the affordability of the organisations. The intention is to capture the baseline costs of where they are now and, particularly as the fighting capability of those organisations are developed with the acquisition of new equipment, new techniques and so forth, capture the actual real costs of sub-units and units.

We would aggregate those to identify the cost of a brigade at a particular level of readiness as opposed to, for example, a brigade in the southern area of Australia which might have predominantly reserve personnel in it. It would cost us, at its low level of readiness, less money compared to one such as the 1st Brigade which is predominantly

ARA, with a high combat capability and higher levels of readiness operating in the north of Australia.

CHAIR—I think that will wind up today's hearing. I would like to thank everybody for coming along.

Resolved (on motion by Mr Beddall):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 4.06 p.m.