PROOF

COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Reference: Review of Auditor-General's reports third quarter 1997-98

CANBERRA

Tuesday, 16 June 1998

PROOF HANSARD REPORT

CANBERRA

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Members

Mr Charles (Chair)

Senator Coonan	Mr Anthony
Senator Crowley	Mr Beddall
Senator Gibson	Mr Broadbent
Senator Hogg	Mrs Crosio
Senator Murray	Mr Fitzgibbon
Senator Watson	Mr Georgiou
	Mr Griffin
	Mr Sharp
	Mrs Stone

The terms of reference for this inquiry are:

Review of Auditor-General's annual reports third quarter 1997-98.

WITNESSES

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Review of Auditor-General's reports third quarter 1997-98

CANBERRA

Tuesday, 16 June 1998

Present

Mr Griffin (Acting Chair)

Senator Hogg	Mr Beddall
	Mrs Crosio
	Mrs Stone

Committee met at 11.19 a.m.

Mr Griffin took the chair.

ACTING CHAIR (Mr Griffin)—Welcome. This is the third public hearing in the series of quarterly hearings to examine reports tabled by the Auditor-General in the financial year 1997-98. This morning we will be taking evidence on two audit reports, namely, Audit Report No. 39 1997-98, *Management of selected functions of the Child Support Agency*, and Audit Report No. 35 1997-98, *DEETYA International Services*. We will be running the sessions in a round table format which means that all relevant participants will be present to hear what others are saying about the Auditor-General's reports.

I must ask participants to observe strictly 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 issues for discussion, I would ask them to direct their comments to me and the committee will decide if it wishes to pursue the matter. It will not be possible for participants directly to respond to each other.

Secondly, given the length of the program, statements and comments by witnesses should be kept as brief and as succinct as possible. Thirdly, I remind witnesses 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 parliament. This evidence given today will be recorded by Hansard and will attract parliamentary privilege.

Finally, 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 secretariat staff.

The audit report being considered in this first session is Audit Report No. 39 1997-98, *Management of selected functions of the Child Support Agency*. The committee has received one submission from the Child Support Agency in relation to Audit Report No. 39.

[11. 22 a.m.]

ARGALL, Ms Catherine, Deputy Registrar, Child Support Agency, GPO Box 9185, Canberra, Australian Capital Territory 2601

BIRD, Ms Sheila Margaret, Assistant Commissioner, Child Support Agency, GPO Box 9185, Canberra, Australian Capital Territory 2601

HOLMES, Mr Mark Edward, Senior Director, Revenue Branch, Performance Audit, Australian National Audit Office, GPO Box 707, Canberra, Australian Capital Territory 2601

LAPTHORNE, Mr Russell Stuart, Director, Performance Audit, Business Unit, Australian National Audit Office, GPO Box 707, Canberra, Australian Capital Territory 2601

McPHEE, Mr Ian, National Business Director, Performance Audit, Australian National Audit Office, GPO Box 707, Canberra, Australian Capital Territory 2601

WHITE, Mr Peter Frank, Executive Director, Revenue Branch, Performance Audit, Australian National Audit Office, GPO Box 707, Canberra, Australian Capital Territory 2601

ACTING CHAIR—I welcome representatives from the Australian National Audit Office and representatives from the Child Support Agency to today's hearing. The committee will take evidence today on a number of issues relating to the performance of the Child Support Agency in the administration of key aspects of the child support scheme. The committee also wants to examine the contributing factors to delays being experienced by clients and assess whether appropriate staff training has been introduced to ensure uniformity of performance across branch offices.

The Auditor-Generals' views have been set out in the report, as have the initial response from the audited agency. However, the committee would be interested to learn if any action has already been taken, or is planned, to address the issues raised in the Auditor-General's report. Ms Argall, do you wish to make a brief opening statement before we proceed to questions?

Ms Argall—Yes, thank you, Mr Chairman. I would like to highlight a few aspects about the submission which was presented to the committee by the Child Support Agency. The Child Support Agency's role is to assist parents to take responsibility for the financial support of their children. The agency is aware that there is a lot of community criticism of the scheme and of the agency itself. Nevertheless, I think it has to be acknowledged that the scheme and the agency have been demonstrably successful in realising the aims of the scheme introduced some 10 years ago.

Today, after 10 years, nearly one million clients use the agency in one way or another. Nearly 70 per cent of parents pay their child support regularly. Before the institution of the scheme, fewer than 30 per cent of parents met their child support or maintenance responsibilities. Today, more than 40 per cent of parents are making private payment arrangements. That is, they register with the agency but they transfer the payments between themselves without agency intervention.

The average child support payment is about $50 per week. Prior to the scheme, child support payments were very low and sometimes less than $10 per week. Since the inception of the scheme, 90 per cent of liabilities raised have been collected either by the agency or through private collections between parents. Last year, $1 billion dollars was transferred between parents for the benefit of their children. This year, as at the end of May, $1 billion had been transferred between parents.

We recognise that, after 10 years of operation, the environment has changed. That is demonstrated by the success the scheme has achieved to this point in time. Because of the environment changing, the Child Support Agency has embarked on a program of working with other government agencies and with community organisations to better support parents to address all of the issues that they face following separation. Child support is only one issue on separation and most of the issues that we deal with in the agency are not about the transfer of child support payments. They are about the emotional issues and broader financial concerns that parents face following separation.

What we are trying to do—and I have outlined it in our submission—is work with community based organisations to provide the support that we believe parents need to support them across all of the issues that they are facing. By providing that sort of support, we can actually enhance their emotional situation and also enhance the payment of child support into the future.

As I mentioned, more than 40 per cent of parents are now making private arrangements in terms of the collection of child support liabilities assessed by the agency. Our aim in the agency is to build on that model, because we believe that parents and children benefit if the parents can make successful arrangements and take responsibility for their child support continuing arrangements.

In addition to that, we believe that minimal government intrusion is the best outcome for parents and children. We are working very hard to assist people to make private payment arrangements, providing the necessary support that they need to do so. However, we recognise that the agency needs to exist to provide a safety net where those arrangements cannot be made effectively between the parents cooperating.The agency has very dedicated people working in it. I acknowledge the efforts of our staff in operating in what is a very emotionally charged area of operation.

I welcome the ANAO’s report because not only does it acknowledge and recognise

the real advances that the agency has made in recent years but it also provides us with some independent views of other areas that we can work towards improving our agency administration. We are committed to improving our administration and will continue to do so.

ACTING CHAIR—Mr McPhee, do you wish to make an opening statement?

Mr McPhee—Thank you, Mr Griffin. We previously audited the CSA in 1993-94 and found that there was considerable scope for improvement in the areas of client service, complaints handling, human resources development and debt management. In addition to looking at these issues again in this particular audit, we also decided to include a review of the Child Support Review Office, as this aspect of CSA's operations had not been previously audited.

We found the CSA had made improvements to its operations since the previous audit and our report properly recognises the improvements made. Nevertheless, we did consider there was scope for the CSA to enhance its administration in a number of ways and I will mention these.

The CSA could enhance its administration by liaising closer and cooperating with the other agencies that administer the child support scheme, particularly in considering service delivery options such as registration and counselling services. It could be enhanced by improving client recognition of the CSA charter. Only about 13 per cent of clients were aware of the charter at the time of the audit. They could also encourage clients to lodge complaints with the agency in the first instance. It could be enhanced by addressing the negative perception of the CSA service by a high proportion of liable and carer parents; by improved client information and more responsive services; by making agency forms, standard letters and publications more user-friendly; by clarifying for clients the status, role and function of the child support review office; and by improving the management and collection of debts.

In reviewing the CSA's performance, we consulted widely with a range of peak bodies, community groups and members of the legal profession. The audit did not address policy issues relating to the design of the child support scheme, including the child support assessment formula which is legislated, because they are outside the audit mandate. Mark Holmes, Russell Lapthorne and Peter White were the senior audit staff involved in the audit, and we would be pleased to respond to the committee's questions. Thank you, Mr Chairman.

ACTING CHAIR—Thank you, Mr McPhee.

Mr BEDDALL—I will start by going back on some of the figures you quoted. I think you said that, prior to the start of the Child Support Agency, 30 per cent of parents were paying maintenance to children. It is now 70 per cent, but 40 per cent of those are

now private arrangements between parents. So we are back to 30 per cent being collected, as it was prior to the start of the agency?

Ms Argall—No, I think we are comparing different figures.

Mr BEDDALL—One of the criticisms of the agency is that its statistical base is based on the fact that it picked up a lot of people who were in voluntary arrangements prior to the start up of the agency.

Ms Argall—Voluntary arrangements in the context of court orders. Court orders were the vehicle for establishing child support liabilities prior to the inception of the scheme. The statistics provided by the ABS prior to the introduction of the scheme, and also correlated by the Department of Social Security statistics, indicated that less than 30 per cent of those arrangements that had been agreed were actually being paid. So we compare the situation—

Mr BEDDALL—How do they know that? If someone was getting paid, there was no mechanism in those days to record the fact that the payment was being made, was there?

Ms Argall—The Australian Bureau of Statistics provide their information via surveys or by population.

Mr BEDDALL—So it was samples?

Ms Argall—Yes.

Mr BEDDALL—The second part of that one question is that I was interested to see that the Child Support Agency, which is tasked with collecting child support, has now got a bigger role—that is, to become a social working organisation, to counsel people. Is that part of the charter?

Ms Argall—No, I did not say we had a bigger role. I said that we are working with community based organisations and other government organisations to be able to provide our clients with the necessary support that they need to address the broader based issues that they face following separation.

Mr BEDDALL—Is that a government policy decision that you would expand in that way?

Ms Argall—We have not expanded our activities at all. We are developing in partnership with the community. For example, if I use mediation services as an example, we have contracted with community based mediation services on a pilot arrangement basis and we refer clients, who agree to be referred to mediation, to those community based

organisations. So the services are there in the community now, and what we are doing is recognising that child support is one issue, but often it is not the key issue preventing parents from meeting their ongoing financial responsibilities.

Mr BEDDALL—But who is determining that is your role? One of the criticisms of the Child Support Agency is long delays in getting through—the lack of access to staff. If staff are taking on these additional responsibilities, even though it is only a referral, it is taking them away from the duty that is there to look after the child support. Where does this new role come from?

Ms Argall—Government has endorsed the direction that the agency has taken in relation to better supporting parents to meet their child support responsibilities. It is not taking our staff away from serving the clients' needs.

Quite often, with the calls that our agency receives—and we receive about 8,000 telephone calls a day—a lot of the issues raised by clients are not direct child support issues. We can refuse to deal with those issues, which I think is inappropriate. Alternatively, what we can do is refer those clients to the relevant community based organisations that exist who can and do have the skills to assist them across a broad range of issues, whether it is financial services, counselling support services or particular support groups that are out there. There are payee support groups. There are payer support groups. We are developing a register of community based support services that are available to assist our clients to deal with some of those other issues.

Mr BEDDALL—The government has endorsed that additional role for the Child Support Agency? Rather than just a collecting agency, it has now a much bigger role?

Ms Argall—It is an extension of our existing role; it is not a bigger role. It is recognising that parents, following separation and, indeed, for a long time following separation, have a lot of other needs that need to be met.

Mr BEDDALL—It is a very noble cause.

Ms Argall—We can attempt to deal with those issues on the telephone and go around and around in circles with our clients. Alternatively, we can refer our clients to appropriate community based organisations who can help them.

Mr BEDDALL—That is fine, but the fact is with the Child Support Agency, unlike any other government agency, the first point of contact for 34 per cent of your clients—according to the audit office—is the offices of members of parliament. That says to me that there is either a lack of knowledge of how to deal with getting in touch with the Child Support Agency or, as the audit report points out, answering machines are on or there is over a two-minute wait. People in these circumstances will not wait that long. Therefore, they are calling other agencies and members of parliament.

Ms Argall—In terms of our responsiveness to telephone calls, the agency's response times are really quite good.

Mr BEDDALL—Up to two minutes.

Ms Argall—Yes, two minutes. But can I say that two or three years ago we could answer 20 per cent of our calls within two minutes. Now we answer nearly 90 per cent of our calls within two minutes and 80 per cent of our calls within 30 seconds.

Mr BEDDALL—What is the benchmark for two minutes, that that is a good response?

Ms Argall—We are continuously trying to improve our response times. We have looked at other organisations. There are not too many organisations in the community that have the sort of client contact that we have. We have looked at other private sector organisations and their response times, and we will continuously try and explore what an appropriate benchmark is.

Mr BEDDALL—Have you looked at technology? If you want to go out and buy a carton of wine, you would not wait one second; the technology takes your call and puts you through to an operator. There is technology available that stacks calls and puts them through. Are you looking at those sorts of technologies?

Ms Argall—We do. We have an IVR system, and what we try and do is segment the calls and refer some of the automatic calls. For example, if you just want to know what a payment is, it goes to an automatic voice recording system and you can actually key in a PIN number and get a response to your inquiry. We are constantly looking at those sorts of technologies to improve the way we do business. We have an exercise on at the moment to upgrade our communications technology to further enhance our ability to answer telephone calls.

Mrs STONE—My questions are to the Child Support Agency representatives. Obviously, you are working in a very difficult, emotionally charged area. We acknowledge that. It is probably one of the most difficult areas. We acknowledge that there have been some improvements since the previous audit in 1993-94. However, the audit does point out that there are still major problems with standard letters, with forms being too complex. Those of us who have constituents coming to us have to sit down with them and sometimes, with the best help from the most expert legal advice, the form filling—especially if you are looking, for example, for a review departure—is extraordinarily difficult and complex.

The audit notes that in terms of a negotiation relationship to debt collection it seems that we are delivering inequitable outcomes. Often the lower income people at the end of their negotiation are paying similar amounts to higher income earners. We have

people who do not know about the complaint mechanisms. You suggest that members of parliament are briefed. I have not been fortunate enough, like a lot of my colleagues, to ever have been offered a briefing from the CSA. We have 13 per cent only who recognise the client charter. So there is an extraordinary amount of difficulty still in the Child Support Agency, quite obviously.

We are told that you are comparing your performance with overseas agencies with similar charters. Can you tell us who you are comparing yourself with, how you shape up in terms of comparisons with other international providers and how you are immediately taking on board these very real problems in the agency? You can deal with them one by one after you tell us about your international comparisons, but, for example, how are you right now dealing with the forms and standard letter problems that are really the core of a lot of people's concerns?

Ms Argall—Yes, you do raise a lot of issues there. I will attempt to deal with a lot of the service issues and then go into the international comparisons, if you like. Particularly with forms and letters, we have a letters activity going on at the present time where we have vastly simplified and reduced the volumes, the types of letters that are being produced by the agency. We are ready to roll with a whole lot of reformed letters.

One of the limitations we have at the moment is that we have legislation in the parliament so there is a bit of a chicken and egg situation. Our letters have been drafted based on the revised legislation so, before we can issue the first stage of the total reform of letters, forms and statements, we need the new legislation to pass through parliament or, alternatively, we have to make a judgment that we revise based on the existing legislation. That is the first stage of that. It does take a lot of time to go through all of those forms, statements and letters.

We have a total revamp of our IT redevelopment going on at the present time. It is due for implementation in early December this year. That will provide a major transformation of the system support that we provide our staff with to actually enable them to improve the service that they are providing, and that integrates a full revamp of all of our existing letters. That will be in December this year.

We do have an active program of briefing senators and members on an ongoing basis, but particularly post-election. Quite often those briefings take place, unfortunately, when you are away here in Canberra, so those briefings are more often than not with your staff. We try to provide as much support in your local electorate offices to help deal with the client issues that you are facing on a day-to-day basis.

More recently, as you would be aware, I have offered to provide briefing sessions by the Child Support Agency for senators and members when parliament is sitting and you are in Canberra. That offer will be followed up with senators and members so that we can provide you with regular briefings, if you want, to find out what it is we are doing in the

agency and to deal with some of the particular issues that your electorate office staff are dealing with.

We are open and, if you are not receiving the sort of support that you believe you need, please let us know. We will ensure that we do get back to your offices and back to you personally to ensure that you are getting that service that is available to you.

Senator HOGG—Could I just stop you there? I am a person in question—two weeks off two years in the job as a senator—and I have never received a briefing, nor have my staff, from the CSA. Let me also say that we have received in that intervening period of time, though, very good support in handling cases. But I was surprised to read in the audit office report that that happened. Also, in the audit office report it says:

The CSA provides them—

that is parliamentarians—

with child support information kits and meets clients in electoral offices where this would help to resolve particular cases.

Ms Argall—That is right.

Senator HOGG—I cannot say we have ever had that happen. Let me say again I agree with you that it is a highly emotionally charged area. By the time these people get to us they are almost on the ceiling trying to resolve the problems.

Ms Argall—I will take that issue up and find out why your particular office has not had a briefing. We do have kits and we do personally visit offices. Where there is a high client demand, again, it is at the request of the particular senator or member. We are prepared to come out and work with you in your offices to provide the necessary support that you need.

ACTING CHAIR—Have you got any stats on how many members' offices you have actually visited to deal with cases?

Ms Argall—I do not have that with me.

ACTING CHAIR—I would be interested to see that.

Ms Argall—I daresay we could provide that information to the committee.

Mrs CROSIO—Could that be matched by the requests that have been made? The agency does not go in unless you ask them to come.

Ms Argall—We do. Where we have a high level of client contact we will offer to come out on a more regular basis to assist with cases, but with the program of visiting senators' and members' offices, obviously we ring up and find out whether we can be there.

Mrs CROSIO—They have been to mine.

Ms Argall—I am glad to hear that.

Mrs STONE—We are up to the complaints mechanisms, I guess. It was very disconcerting to read that you do not formally consistently log the complaints coming in. Of course, that is an essential part of policy evaluation and professional development of your staff. Are you urgently dealing with that now?

Ms Argall—We are. The audit report addressed some issues about our ability to analyse the data in a more flexible way and we will be dealing with that with our new systems development. We do record all of the complaints that are coming in. There have been some issues about consistency in terms of how some of those complaints have been classified. We have dealt with that issue as part of our organisational redesign that we are implementing now.

The complaints function will be a nationally driven function that will drive the improvement of consistency even further. Certainly, over the last 12 months there has been a dramatic improvement in the level of consistency. What is a complaint to one person may not be a complaint to another. We have gone through developing guidelines so that individual discretion is less likely to be a factor.

We do now analyse all of our complaints on the basis of subject matter that comes in. If there are particular issues they are dealt with via a three-level complaint system: first to the individual case officer and then to the team leader. The learnings from those complaints are dealt with within the team and the branch but, at a national level, we identify the consistent themes that are coming through in the complaints system. We use that information to actually drive some of the administrative reform to improve the agency's performance.

Mrs STONE—How are you making sure that your clients are aware that there is a complaints service, that there is somewhere they can go to log their complaint and their concern? Only 13 per cent recognised that there was a client charter, so that, and the fact that a substantial number of your clients were not aware of how to go about making a complaint, has to be part of your agency's failure to promote or communicate what you are up to.

Ms Argall—Some of the problems with clients acknowledging that they knew about the charter is the language we use. Is the word 'charter' something that is

understood more broadly in the community? That is one of the things that we have been looking at in reissuing the charter come July this year. We have gone out and market tested our charter and are seeking from the community what it is that means something to them. We are drafting material that means something to us. What we are trying to do is turn it around and provide language and look at service standards that are relevant from a community perspective.

So all of our clients did actually receive a charter. Whether that meant anything to them is another issue. Clearly it did not, and we are just trying to work now, when we go out again, to make sure that this actually does mean something to them. The complaints process is highlighted as part of our charter. But we will find a different way of describing that.

Also, when clients ring and have a complaint with the agency, they are advised of the three-level complete service and they are encouraged to use that. That is part of our staff training, and we need to make sure that staff are constantly aware that they need to inform clients of their rights. Complaints are a right, objections are a right, appeal mechanisms are a right. We are obliged to let our clients know the rights as well as their responsibilities.

Ms Bird—Although the client recognition of the charter was around 13 per cent, and I do not have the figures with me, a significantly higher proportion of clients were aware that there was a complaints service.

ACTING CHAIR—Around 40 per cent, I think.

Mrs STONE—So it is not very high.

Mr BEDDALL—Weren't 58 per cent of complaints resolved in favour of the client, according to the audit?

Ms Argall—Yes.

Ms Bird—Yes, that is right.

Mr BEDDALL—Wouldn't it be in the interests of providing a better service to make sure that 100 per cent of people are aware that there is a complaints mechanism?

Ms Argall—That is what we are seeking to do.

Mr BEDDALL—How are you seeking to do that? Are you advising them by mail?

Ms Bird—We are trying to do that through all of our vehicles—through the

reissue of our charter, reinforming clients of the rights they have available to them, and also ensuring that all staff as part of our training practices are aware that they have a responsibility to advise clients of their rights to complain.

Mr BEDDALL—How does Centrelink do it? They have mechanisms. How do they inform? Have you checked how other agencies inform people?

Ms Argall—We are constantly in touch, particularly with Centrelink, because of community organisations. They are probably as close to us as anyone out there. Their complaints service and charter is a lot younger than the child support charter. Our charter and complaints system was introduced on 1 July 1996. They only introduced theirs in the last nine months. Their experience is newer but, certainly, in looking at a revision of our charter, we have been talking with Centrelink to learn from their experiences in the last nine months so that we can leverage off their learning.

Mrs STONE—Ms Argall, if I can pick you up on that final part of my question, who are you comparing yourself with internationally, what sort of performance monitoring have you been doing and what are the comparisons that can be made? How are we shaping up?

Ms Argall—I am wondering whether we could give you a copy of a statement. I have two pages of information here that you might find useful.

Mrs STONE—This is your international comparisons?

Ms Argall—Yes, this is the international comparisons. We compare ourselves—

Mrs STONE—Can you summarise that very briefly for us just now, and also table it, perhaps?

ACTING CHAIR—We will take it as a supplementary exhibit.

Ms Argall—In relation to the Australian child support scheme, I have mentioned some of the figures available in my introductory comments. The agency's collection rate exclusive to the private payment arrangements is 83 per cent, or 90 per cent if you include the private collection arrangements.

The New Zealand collection rates are approximately equivalent to our own. They operate through the taxation system as well, although it is not a transfer system. Their collection rate of 90 per cent includes payment arrangements entered into, so it is not actually collections per se, but, once the payment arrangement has been entered into, the full amount of the payment arrangement is included as a collection whereas we do not count that in our collections. New Zealand is probably the closest to us in terms of international collection performance.

In Canada, there was a profound change to the system in May 1997 and, as a result of that, no scheme performance statistics are available. Essentially, it is a justice based system, a legal based system. It is based on a formula which is based on income shares by parents.

In Sweden, the system is managed by the Swedish Social Insurance Board and we only have total collections for them. With regard to the United Kingdom and the United States, I have not got in this summary their actual collection rates, but their collection rates are under 50 per cent by comparison, if you look at an apples to apples comparison with Australia. In the United Kingdom, the system is run through the social security organisation. In the United States, of course, you have got different systems operating in various states and, indeed, in some counties you have formula based systems, you have judicial based systems, but under a loose umbrella, they are managed through a national child support enforcement agency.

Mrs STONE—We can pick the statistics off the form pretty quickly. I was trying to find out what sort of support or information you receive from those international comparisons to help you better handle your complaint systems, the way you currently have a lot of difficulties with legal officers in the review process—lots of complaints about the way they perform and so on. What you are saying to me, I guess, is that you have compared your raw statistics on collection rates, but you were not able to get much help in terms of your actual processes.

Ms Argall—I think that is probably true, because in my dealings with those other agencies Australia is, if you like, at the head of the pack. So they are learning more from us than we can learn from them. The heads of agencies for the United Kingdom, Canada, the US, Australia and New Zealand meet each year, at Australia's instigation—that has been happening for a couple of years—to talk about all the sorts of issues that you have raised.

Again, we seem to be leading the way in a whole range of areas in the area of child support. Indeed, only in the last few weeks, I have had some telephone calls from the United Kingdom because they are having a lot of problems with bedding down their new scheme and they were looking to get some guidance from us on our departure process in particular.

Mrs STONE—Heaven help them!

Mrs CROSIO—It is a lot better than it was. I have got a couple of questions and before I lead into them, Ms Argall, I would like to ask you to qualify an answer to Mrs Stone's question. You said you could not change the forms or the letters until the legislation that is currently before the parliament comes into effect. You are not really saying that because the complaints have not been able to be evaluated you have not been able to change your letters before this?

Ms Argall—No, what I am saying is that we will have to make a judgment. We do have legislation being considered at the present time—

Mrs CROSIO—Yes, I am aware of that.

Ms Argall—which changes some fundamental aspects of the policy—

Mrs CROSIO—But the problem in the last year or two—and the auditor's report has found it—was that people could not understand; letters did not have directions on them. Very simple processes could have been put into place and have not at this stage been put into place. Following your complaints, you say you record all your complaints and you are able to look at the situation there, so why haven't the letters or the formats been changed to meet that demand?

Ms Bird—Some of our forms have in fact been changed as we have been going along. For example, the application for registration form was identified—

Mrs CROSIO—It is still very complicated. You have got to admit that, for the average person out there, the forms are still very, very complicated.

Ms Argall—When we go through a revision, we are actually market testing them at the moment. We are going to a group of clients who look at the forms, look at the letters and provide us with some advice on, 'Does this mean anything to you. Can you actually understand this?' It sounds like it is an easy process to do. We have thousands of letters. Those letters are produced predominantly automatically through a letters engine. So to actually change this—

Mrs CROSIO—I understand that from social security days gone past.

Ms Argall—Yes, it is a matrix approach and therefore the way you organise it is that every letter is linked to every other letter. Where it is a simple matter of redrafting a letter, where we can do that, we do that, but with the bulk of our letters that you are talking about—

Mrs CROSIO—It frightens the hell out of your clients.

Ms Argall—Yes, they do; they frighten the hell out of me when I see—

Mrs CROSIO—One of the reasons why they come to our office is that they receive this and they are shaking. When you sit down and take them through it page by page, as to what it really means, they are still shaking, but not quite as violently as before.

Ms Argall—Yes. We do acknowledge that it is a real issue for our clients.

Mrs CROSIO—This has been a continual complaint. It did require the auditors to go through the department. This is a continual complaint that has been expressed, particularly by us. I know that, as a parliamentarian out there at the coalface, one of the concerns has been always the complicated way in which we either say 'yes' or 'no'. We do not seem to say it in plain English. I was hoping something like this could be improved along the way. I see you are trying but there is still a long way to go.

Ms Argall—We are trying.

Mrs CROSIO—That leads me to other questions. On page 77, with regard to the debt write-off, the ANAO observe that CSA has 4,700 clients, writing off debts totalling $58 million, representing 11 per cent of the total child support debt and equivalent to two per cent of the child support liabilities raised. They go on to say that there has been a marked increase in debt write-offs since 1995, when debt write-offs stood at only $16 million. They go on to say that debt write-off, as a percentage of gross debt, ranges from three per cent to 22 per cent across branches. That is the point I want to now lead into: three per cent to 22 per cent across branches. These figures suggest that some branches have been very active in writing off debt and other branches have given low priority to such work.

My question is: what type of staff training do you have across the board to provide uniformity? That is a big difference—three per cent to 22 per cent. With complaint areas, some branches will say they handle it very quickly. I take into account the area where I live, and I am using it as a parochial example. I know we have a lot of English as a second language cases and it is very difficult for some of your telephone complaints to be handled very simply and quickly; I acknowledge that. But do we have a complete, uniform training procedure across all of your branches?

Ms Argall—Yes, we do. We have training packages which provide consistent procedural instructions and guidance. They form the basis of our training packages which are provided to all staff of the agency on an ongoing basis. We have quite a comprehensive training strategy which looks at every level and responsibility within the agency and provides an analysis of the training needs for staff operating in that particular area.

ACTING CHAIR—How do you explain the variations?

Ms Argall—There are lots of differences in terms of economic profiles. I do not think it is just a question of consistent practices. You have different economic profiles for different areas, which will determine what areas of debt are actually written off at any point in time. I make a point which may be understood, but I will just clarify it: when we write off debt we do not write it off permanently. We have a look at whether there is a capacity to recover that debt at that particular point in time. All debt that is written off is in fact revisited.

Mrs CROSIO—When does it get to a stage where it is no longer revisited?

Ms Argall—We are developing a policy on that at the present time.

Mrs CROSIO—We have not had a policy in the previous 10 years?

Ms Argall—The legislation at present does not give us the capacity to completely forgive a debt.

Mrs STONE—You talked before about the negotiated variations in the payments to be made by different people with different income levels. Why is there no consistency in the negotiations whereby a higher income person—taking on board their additional family commitments and so on—might end up with substantially less to pay comparatively than a low income person?

Ms Argall—While we have guidance on what protected income levels are there, we try to encourage our staff to look at all of the circumstances for a particular client on an individual basis. That will always produce, I would suggest, some variations. If we provide a totally regulatory approach and not give our staff any discretion at all, I think we would have worse consequences than we do by providing a framework for staff to work within and allowing them to make judgments based on the particular circumstances. Where a payment arrangement is entered into, it is revised over time. So it is not there forever and a day.

Mrs CROSIO—Is that procedure done automatically or only done if an objection is raised?

Ms Argall—No, it is done in consultation with the client. If there is a debt, what we do is analyse the debt. We look at the particular circumstances of the client. Often we will send out to the client an income and asset statement to complete if they have indicated that they have some financial difficulties in meeting any additional arrears payments. When we get that information back, we talk again with the client with a view to coming up with an appropriate repayment arrangement that they believe they can meet.

Mrs CROSIO—I have a further question on that debt write-off. With that recommendation 12, I noted that you are saying that you agree with parts A, C & F and agree with qualifications to B, D & E of this recommendation. Would you like to elaborate a bit further, so we have on the public record where you agree with qualifications to that particular recommendation from the auditor?

Ms Argall—Okay.

Mrs CROSIO—Recommendation 12 recommends that the CSA maximise financial support for children and separated parents, reduce net child support debt—and it

goes on. This is regarding the debt collection basically, and we are still on debt at the moment.

Ms Bird—Recommendation 12B actively pursued the recovery of debt associated with default assessment liabilities. What we are saying here is that a default assessment has been used because we have not been able to find relevant income for the particular person, which often means we have not been able to locate that person. We are looking to make sure that we do collect the debt. What we would be looking to do in those cases, firstly, is to do our best to get a correct assessment in place and not just blindly try to collect the full amount of the default assessment. Our first priority would be to ensure the debt that we have raised is correct. The second priority would then be to collect it.

Mrs CROSIO—And D, identifying debtors with assets for possible legal action?

Ms Argall—The issue we did not agree with there was publicising our enforcement action. We do not believe—

Mrs CROSIO—I can understand why, because of privacy, but, without using names, couldn't you use examples where this has occurred in the past?

Ms Argall—I do not actually believe that is conducive to establishing the sort of relationship that we are trying to establish with our clients. We are trying to encourage parents to voluntarily meet their child support responsibilities. That does not mean to say that we go soft on payers who are not prepared to meet their responsibilities, and indeed we have a gradation of administrative and legal proceedings that we take for those payers. But, I guess, we have made a judgment that we do not believe that publicising that activity is in the best interests of creating an arrangement where we are trying to encourage and support parents to meet their responsibilities. They know the big stick is there in the event that payments are not being made, but what we are trying to do is work together with both clients and ensure that we have the maximum extent of cooperation.

Mrs CROSIO—But if they know the big stick is there, it is certainly not covered with the clients knowing where they can complain to. The statistics do not seem to lead to that. You have to have big debts 'outstanding' even though they are not written off. It is obviously not leading to satisfaction in that respect. So you have tried—and I can understand it when you are dealing with the emotional problems that have come forward through the agency. It is not working if you read this report. I suppose I am really saying that all of this sounds good, but really the report and all of that rhetoric does not put anything more into action as far as getting results for the agency, does it?

Ms Argall—I think the results are there for the agency regardless. Yes, there is outstanding debt and we are continuously working on that. An 83 per cent collection rate by the agency is not bad and more than 90 per cent all up is pretty damned good as well.

Mrs CROSIO—I appreciate also that people are now meeting their commitments and were not in the past.

Ms Argall—The word gets around there in the community. I do not think we have to be seen to be rattling that particular sabre in the press. I think that is counterproductive. That word of mouth gets out there and is around. There are some other issues that we are working on as well, where you do not actually have a debt because there are deliberate attempts to minimise child support liabilities. There are ways that people can do that.

Mrs CROSIO—I can understand your point there. Could I take you then to F where you also qualify the targeting of doubtful debt for appropriate debt recovery, liability reduction or debt write-off action.

Ms Bird—We have agreed with F. It was E.

Mrs CROSIO—I am sorry. You agreed with that one. It is E. I ticked the wrong side of my own report.

Ms Bird—We do agree with the recommendation in E that the guidelines on the remission and collection of penalties should be reviewed and that we should monitor the outcomes. The qualification comes in relation to the discussion in the audit report about the purpose of late penalties in the first place and the discussion suggests that the agency should not exercise as much discretion in terms of remitting the late payment penalty; we should be more active in ensuring the penalty is collected and not remitted.

Ms Argall—This is a practical issue. With some of the old debt, when you actually go in and review that debt, you often find that you might have a total debt of $12,000, $7,000 of which is penalties. What is more important: collecting the amount that is necessary to be transferred to the payee for the benefit of the children or collecting penalties which are remitted to CRF? If we can work on a payment arrangement which gets that primary debt paid, that is what we are seeking to do. That was the reservation.

ACTING CHAIR—I am just conscious of time. Mr Beddall has got a question and then I want to go to the ANAO and ask them for a response on some of the issues that have been raised. I will go to Mr Beddall first.

Mr BEDDALL—One question arises out of Mrs Stone's question on international comparisons. The largest complaint that any member has is in relation to the formula. I understand the formula is set by government and not by the Child Support Agency. But you indicated already that, in many ways, there are a lot of opportunities for minimisation. In fact, it is basically PAYE taxpayers who are most caught by the Child Support Agency formula because they cannot minimise. Have you done an international comparison on the formula and how it compares with other countries—in particular, the fact that is on gross income, not after tax income, which means there is a double penalty on people. They have

already paid tax and then they pay again. So there is minimisation of return to the person working, so that you get more avoidance at the bottom end. Have you done an international comparison on the formula that you collect under and how that compares? If you have not, can you give it to us in writing, so we can actually have a look at it?

Ms Argall—The area of formula development is the responsibility of the Department of Social Security.

Mr BEDDALL—That was not my question. My question is, on an international comparison, how does our formula compare with the formulas of all these people you meet once a year—the United States, New Zealand and Great Britain? Where do we stack up? In the view of some people, are we leading edge or middle of the field or where?

Ms Argall—There are very different sorts of systems applying in the various different jurisdictions.

Mr BEDDALL—But, surely, if you are meeting once a year—

Ms Argall—Yes, we have got information which looks at the various systems.

Mr BEDDALL—Can you take my question on notice and give us a comparison?

Ms Argall—Some of that information is in that comparison. I will show you.

Mr BEDDALL—Can you give me a comparison? I want to compare the formula we operate under with all these people you meet with on a regular basis. If you have not got it there, can you do that?

Ms Argall—We will attempt to do that.

ACTING CHAIR—ANAO, can I get some comments on some of the issues that have been raised particularly with reference to the question of standard letters and forms and also on the question of debt?

Mr Lapthorne—I will address the question of debt, recommendation No. 12. The CSA's response at the time of the report and today indicates that they substantially agree with two of the three recommendations that were qualified, and we are satisfied with those responses. They share our view that there is a need to deal with default assessment liabilities, and they also share our view on reviewing the guidelines covering remission of penalties.

The area of disagreement is about publicity to enforcement action. The report suggests that there is value in highlighting cases that perhaps proceed before the courts so that they are on the public record, although the office would not want—and I do not think

the CSA would want—to publicise the details of the individual cases.

One issue that comes out of the CSA's own survey work is that payees see the agency's enforcement work as not being effective. Giving some publicity to enforcement actions would go some way in making payees more aware that the agency, in appropriate circumstances, does take enforcement action. We would also draw to the committee's attention that there are other government agencies, such as the Department of Social Security, that do publicise enforcement actions where cases are taken before the courts.

Mr McPhee—I think that is the issue from our perspective, Mr Griffin: it is not a case of sabre rattling but whether you employ the full range of options available to you as an agency.

If I could continue with the issue of how the audit office now views the CSA on a range of things. The issue from our perspective is that there are still some common areas coming through from this audit report compared with the 1993-94 report, particularly touching on client service, complaints handling and debt management.

We very much appreciate that this is a very difficult area of public administration. The CSA has made improvements, and we would want to recognise that, but it just goes to show that to get on top of these key areas will require a very determined effort on the part of CSA to seriously address these factors which contribute to this, including the issue you raised of the standard letters, et cetera. I do not have a feel for the complexities that Cathy talks about in terms of the design of the letter system, but one would expect that there are real benefits in taking early action on letters, in particular, and on forms design.

ACTING CHAIR—I have a quick question on the letters. We were discussing this matter earlier, and there was a question about when a letter goes out from Centrelink informing a client of a decision or an action of some sort. As I understand it, the letters actually spell out what the options are with respect to processes. Have you considered that as something that could be done which would increase awareness of the role of the review office; that that is an option which could possibly save a few inquiries, not only at our office end but also in terms of some of the phone inquiries you get seeking advice about where they should go when in fact the letters could spell that out for them?

Ms Argall—Indeed, it is our responsibility to advise our clients what options are actually available.

ACTING CHAIR—So that happens now, does it; is that in the process of happening now?

Ms Argall—That is something that you have to be constantly vigilant about.

ACTING CHAIR—To make the point a bit blunter, do your letters currently have that on them?

Ms Bird—Whenever there is a formal objection right in the legislation and we make a decision on that particular issue, the client is advised of the objection rights.

ACTING CHAIR—With respect to the review agency, what percentage of what they deal with is made up of formal objections and how much of it is actually questioning aspects of decisions that have been taken?

Ms Bird—The function of the review agency, the departure process, is not in fact a review body. The departure process is available only for parents to make an application to depart from the administrative assessment under the formula. The legislation they are dealing with is specifically in relation to that sort of application. It is not a review of or an objection to other decisions that the agency makes.

ACTING CHAIR—Where do they go with those?

Ms Bird—Where there is a formal objection provision, they come to the agency and officers who were not involved in the original decision making process deal with the objection.

ACTING CHAIR—And where there is not a formal objection provision?

Ms Bird—Where there is not an administrative review available, the client's option is to either come to the agency through the complaints process or to apply to the Family Court for the Family Court to make a decision.

ACTING CHAIR—Is that spelt out to them on a regular basis?

Ms Bird—Yes, it is. Another strategy that we are adopting is not to rely as much on the use of letters and for our staff to actually contact the parents and talk through decisions and the implications of those decisions. Many of the issues that our staff are dealing with are quite complex and it is probably easier for parents to have those explained to them over the telephone so that if they do have questions or concerns they can be dealt with or explained on the spot.

ACTING CHAIR—Okay. I am conscious of the time. We have already gone over time a little. Are there any further questions? I have some questions from Senator Hogg which I will come to in a second. Are there any further questions at this stage?

Mrs STONE—I have a very quick one about the review process. There has been concern, as you are aware, about the actual officers who undertake the departure reviews.

Concern has been expressed about their attitudes to clients, their lack of professionalism in some cases, their remuneration which is related to their throughput, and their professional capacity to do the work that is put in front of them. We have been told by the audit office that you are reviewing the qualifications or the background of the people who might do that sort of work in the future. Can you tell us a bit about how you are trying to improve the clients' experience of that departure process when they come to the CSA?

Ms Argall—The government did announce recently that there would be two reviews undertaken of the departure process. One was a shorter term exercise which was looking at the qualifications, skills and capabilities of the review officers per se, and we will be reporting back to the minister by 30 June on that review. The other review looks at the whole departure process and includes recommendations about how we can improve that whole function. What we are endeavouring to do is to look at how we might improve the whole process and report back to government for consideration of any new proposals in next year's budget round.

ACTING CHAIR—I have some rather detailed questions which Senator Hogg wants to put to you. What I will do, given the time, is put them on notice, table them, so they can be included in the transcript. That will provide you with a copy and, if you can get back to us on that, that would be fine. Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The document read as follows—

ACTING CHAIR—Also, we may have some additional questions that might arise after we have considered this matter in the coming weeks. If that is the case, we will get back to you in writing about those.

Unless anyone has anything dramatic they want to say now, I will call this segment to a close. Thank you very much for attending.

Ms Argall—Thank you.

Proceedings suspended from 12.22 p.m. to 12.33 p.m.

GOLIGHTLY, Ms Malisa, Executive Director, Performance Audit, Australian National Audit Office, GPO Box 707, Canberra, Australian Capital Territory

McPHEE, Mr Ian, National Business Director, Performance Audit, Australian National Audit Office, GPO Box 707, Canberra, Australian Capital Territory 2601

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GOUGH-WATSON, Mrs Janet Bancroft, Director, International Services Unit, Department of Employment, Education, Training and Youth Affairs, 16 Mort Street, Canberra, Australian Capital Territory 2601

GRANT, Mr Peter, Deputy Secretary, Department of Employment, Education, Training and Youth Affairs, 16 Mort Street, Canberra, Australian Capital Territory 2601

WALTERS, Mr Colin John, First Assistant Secretary, Department of Employment, Education, Training and Youth Affairs, 16 Mort Street, Canberra, Australian Capital Territory 2601

ACTING CHAIR—I welcome representatives from the Australian National Audit Office and representatives from the Department of Employment, Education, Training and Youth Affairs to the second session of today's public hearing. I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as do 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 in *Hansard* and will attract parliamentary privilege. The audit report being considered in this session is Audit Report No. 35 1997-98, *DEETYA International Services*.

From the committee's perspective, the main purpose of this session is to examine the key issues identified in Audit Report No. 35 on DEETYA International Services and to determine what action has been taken or is planned by the department to address issues raised in the report. The committee wishes to examine the role DIS is seeking to pursue and the effectiveness of its strategies in meeting its objectives.

The committee has received one submission from DEETYA in relation to Audit Report No. 35. I would like to provide an opportunity for a brief opening address from DEETYA, and also from ANAO. Would Mr Grant wish to make a brief opening statement before the committee?

Mr Grant—Thank you very much, Chairman. We have, as you say, provided a short submission in response to the invitation of your secretariat. That submission outlines

the department's responses to the recommendations of the ANAO audit report and draws attention to the action that we have already taken or, in some cases, are currently planning in response to those recommendations. I will add only fairly briefly to the terms of our written submission.

Firstly, we welcome the ANAO report as a fair and constructive critique of the operations of DEETYA International Services. The report offered us an excellent opportunity to review both the policy framework and the operational procedures for these activities. It confirmed and added impetus to the thrust of reforms which the department itself had begun to put in place following an internal review which we had commissioned.

The first question we had to ask ourselves as we considered the ANAO report and its findings was whether it is appropriate at all for a department such as ours to engage in international consultancy services of this kind. Our answer to that question is a qualified yes. There is clearly an international marketplace for policy ideas, skills and expertise in the field of employment, education and training, and vigorous competition from other countries—the United Kingdom, Germany and Denmark, for example—to win contracts for business in that market. It is equally clear that Australia generally, and this department specifically, is highly regarded internationally for its creative policy approaches and for the high quality of its policy solutions.

Consistent with that reputation, there is an evident demand from other countries, especially those of our region, and from international financial institutions such as the World Bank and the Asian Development Bank, for access to the expertise and skills which Australia can offer. In many cases also there is a particular demand for direct access to the skills and expertise of public sector agencies and officials, in part because the involvement of government is seen by many countries to provide an assurance of quality but also because many of the skills in question are essentially public sector skills.

The issue for us, of course, is how we should respond to those demands, on what terms and with what objectives in view. Our answer to that question now is clearly different from what it would have been four or five years ago when DIS was first established. At that time I believe the aim was essentially commercial and profit oriented rather than strategic in any significant sense. Experience has taught us the limitations and the inherent difficulties of that approach but, in the circumstances of the time, it was perhaps not wholly unreasonable.

Today, with the benefit of hindsight, we take a different view; namely, that we should engage in such activities only to the extent that there is clear strategic benefit to Australia and Australians from doing so. Specifically, we have chosen to limit the level of our engagement to those activities which directly contribute to Australia's foreign policy, aid or trade objectives, to the internationalisation of Australia's employment, education and training system, and/or to market access and market development opportunities for Australian industry more generally. One consequence of this is that DEETYA International

Services is now a smaller and more focused operation—a section of seven staff only within the department's international division—and that its future assignments will be more contained and selective than was the case in the past.

This more strategic approach does not mean that we have ignored the business side of our operation. On the contrary, we are now much more sensitised to the importance of a businesslike approach and to the need to ensure that any export activities are not resourced to the detriment of our primary domestic responsibilities.

Consistent with this and with the ANAO recommendations, the unit has redefined its business purpose and clarified its community service obligation activities, revised its business planning processes, developed a comprehensive risk management plan, revised its debt management policy and procedures, reviewed its costing methodology and pricing strategies and instituted a system of regular quarterly reports to the secretary of the department. It is also developing a new performance management system in the interests of more effective monitoring and review of its operations and will be moving to full accrual based financial management in line with the department's transition to an accrual accounting system in 1999-2000.

In short, the department has reviewed and substantially refocused the operations of DEETYA International Services to ensure that its activities are consistent with wider strategic objectives, but conducted in an effective and businesslike way. An important aspect of this shift in emphasis is that the department is now doing less of this international project work directly itself, relying more heavily on strategic alliances and partnerships with education and training institutions and the private sector.

We are confident that the new strategic planning and business planning processes which have been put in place do provide an effective system of assurance that the unit will operate in a way which minimises risks, recovers costs and contains the call on internal resources. We are also confident that, despite the modest size of its operation, the unit can play an important part in increasing market access and development opportunities for the Australian educational and training industry, opportunities which would go to other countries if we did not undertake this work.

I trust that those comments are helpful to the committee, and we are pleased to answer questions that the committee may have, Mr Chairman.

ACTING CHAIR—Thank you, Mr Grant. Mr McPhee?

Mr McPhee—Thank you, Mr Chairman. The audit of DEETYA International Services was undertaken by the ANAO in order to examine the implementation of commercial arrangements in the Australian Public Service. While the audit was particularly focused on DEETYA, we did consider that other agencies would also benefit from the lessons learned in this review of DIS.

There were three areas where the ANAO considered that there were major issues for consideration by DEETYA and also for other agencies in this area. The first of these areas was the need to clearly define the business purpose and to develop plans which reflected the approved business purpose. It is from a statement of business purpose, particularly at the level of commerciality to be achieved, that planning, management frameworks, support systems, monitoring and reporting arrangements flow.

The second major finding of the report was the need to develop a costing methodology which provides an adequate reflection of the true costs of production and therefore to be able to correctly determine the level of cost recovery or profit achieved. In DIS's case, there were a number of shortcomings in the costing methodology used which meant that the full cost of production could not be identified. Deficiencies in the approach to costing may have led to inappropriate pricing decisions and/or the inability to adjust the cost structure in accordance with commercial requirements. In DIS's case, a cash deficit of about $1.4 million has accumulated since the commencement of commercial operations to the time the audit was undertaken.

The final major area which required further consideration by DIS is the establishment of a risk management plan which addresses the specific risks associated with the market environment in which the business is operating. As well as the risk it faced as a result of an inadequate costing methodology, there were risks posed to DIS's financial position in other areas due to the nature of its business and the fact that it operated in an international market—for example, the risk posed by foreign currency exposure. Such risks needed to be analysed carefully in order to determine the treatment needed to minimise the risks. The treatment, of course, then needed to be implemented in a timely manner and monitored to determine their effectiveness.

The department has responded positively to the report's finding and has moved promptly to address them, as indicated by Peter Grant here this morning. We are aware that other agencies have taken an interest in the issues raised, and we believe that the benefits of the review go beyond just being applicable to DIS. The senior audit staff involved in the audit were Malisa Golightly and Ann Thurley. We are happy to respond to the committee's questions.

ACTING CHAIR—Mr Grant, in terms of the actual operation of DIS and the more focused and more structured approach that you are now taking in terms of strategic interest, can you outline some examples of current projects that are under way or under consideration?

Mr Grant—Certainly. I could run through a complete list but maybe I will cite some key examples that have recently been undertaken and which accord with the more strategic purpose and approach that I outlined in my opening comments. One such project is a strategic review of technical education and skills training in Malaysia. This project involves assistance to an economic planning unit in the Malaysian government in

undertaking a strategic review of technical education and skills training as a basis for policy review and planning on the part of the Malaysian government.

Clearly, Malaysia is a significant country in our region. Our educational training links with Malaysia are very strong, particularly in the field of higher education but less so, historically, in the field of vocational education and training. But, as I understand it, in recent times the Malaysian government itself has identified the importance of the vocational education and training sector in terms of the wider economic development strategies of that country. It has looked within the region and beyond to countries which have invested significantly in their own vocational education and training sectors. It is clear, from the evidence available to us, that they view Australia's arrangements as something of a model in terms particularly of their emphasis on quality, quality assurance and standards, rather than merely the serving of time and the like.

That is one example where we are doing business in a country that is strategically important and where the potential benefits of that work go beyond the country in question, or the particular activity in question—

Mrs CROSIO—Is there full cost recovery?

Mr Grant—Yes, there is.

Mrs STONE—Are you subcontracting out that work to some private enterprise, or are your officers, some of your seven, actually doing that work in Malaysia?

Mr Walters—It is a mixture, with some degree of contracting out and some involvement of our own staff.

Senator HOGG—Did you have to tender competitively with other nations to win that contract?

Mr Walters—Perhaps I could just describe the general context. On the whole, projects which we take on fall into two categories. One category is technical assistance projects where we are invited to tender by, mainly, the World Bank or the Asian Development Bank. These are often on the basis that they are interested in the project proposal and will talk to us about the cost afterwards. Generally, we look for a cost recovery model and it is not a matter of great debate between us. They tend to accept our costings, with a little bit of discussion.

The second category is mainly loan projects where governments do ask for competitive tender. In those cases we put in a tender bid and, consonant with our overall aim of total cost recovery, obviously one has to adjust price tenders in particular circumstances. There is not a great deal of leeway. On the whole we do not tender for a large number of projects. We only have eight or nine on the go at the moment. It does not

give us much leeway between projects to aggressively price. We have to, by and large, seek to recover our costs in each case, adding in so much of a margin to account for the bidding process and the overheads that would not otherwise be recovered on an individual project. It is not a very fancy operation. It is one in which we have to seek to recover our costs, more or less, across each project that we actually tender for.

Senator HOGG—In what nations would the projects be located?

Mr Walters—Some of the nations we are operating in at the moment are to do with old projects and date from before the changes in policy that Mr Grant has explained. The nations in which we are operating at the moment are: Malaysia, where we have three projects; Romania, which is an old one that predates the present policy; the Philippines; South Africa, which is basically an AusAID project which is non-competitive and AusAID asked us whether we would like to take the work on, and that accounts for two projects; and Zimbabwe, which is a study tour which is a smaller piece of work that we take on.

ACTING CHAIR—So there are two countries in Asia, two countries in Africa and one in Europe at the moment.

Mr Walters—The focus on new bids is very much on Asia.

Mr Grant—Yes, on the region.

Senator HOGG—What is the effect of the current economic crisis on the way in which you handle these projects, given the nature of the report that we have before us?

Mr Walters—Most of the projects are either financed directly or indirectly by the World Bank or the Asian Development Bank and they are tendered in US dollars. Therefore, the effect of the currency crisis at the moment is that we are receiving more in Australian dollars than we were expecting.

ACTING CHAIR—So your cost recovery is going quite well at the moment?

Mr Walters—Yes.

Senator HOGG—Therefore you do not have to take action to hedge against the dollar?

Mr Walters—We have not done that so far. Our operation is tiny in comparison with the international operations of the government as a whole, but it is an area where we will be seeking to develop policy as we go along. At the moment we have been very lucky and the currency movements have gone very well for us. But one has to accept that it will not always be like that so we will be discussing with Finance in the future whether we need to take a more active hedging policy.

Senator HOGG—Just on the commercial nature of your organisation, I heard that one project in South Africa is for AusAID. How many projects are with other departments, or other agencies of government?

Mr Walters—From the Australian government?

Senator HOGG—Yes.

Mr Walters—There are two in South Africa and one in Zimbabwe.

Senator HOGG—Is it likely that this is to be a growing trend for DIS, that more projects will be done for government departments, or government agencies?

Mrs Gough-Watson—Just to clarify the projects that we are doing for AusAID, we were actually subcontracted to one of their managing agents, so we are in fact not contracted directly to AusAID. But, in relation to other opportunities, we are from time to time approached by other departments to assist with providing staff on a subcontract arrangement for their projects as necessary or as relevant.

Mrs CROSIO—Mrs Gough-Watson, can you elaborate a little bit further. Are you saying that AusAID has gone to a subcontractor outside their field and that subcontractor has now engaged you—

Mrs Gough-Watson—Yes.

Mrs CROSIO—to do the work for AusAID?

Mrs Gough-Watson—Yes, that's right.

Mrs CROSIO—That is a case of the right hand not knowing what the left hand is doing as far as government expertise is concerned.

Mrs Gough-Watson—Managing agents do subcontract out a lot of their work. They act as brokers in this sort of industry and when they need high level policy skills they come to our department from time to time.

Mrs CROSIO—So it would not be automatic that AusAID would consult you. If they have something happening in South Africa, project aid, they would not say, 'We will go straight back to DEETYA and see if DIS has got the expertise to do it.' They just do not do that?

Mr Walters—These are often quite complex projects in which the expertise we can provide just forms a part, so the managing agent would look to us to provide that particular component.

Mrs CROSIO—So it is not the whole project; it is just a small part of it.

Mrs Gough-Watson—In fact, it is usually only one individual for a project. It might be for a couple of weeks or a month. They are usually very short term and for very specific requirements.

Mrs STONE—I think you have got nine or 10 projects on the go. Is that about the number right now?

Mrs Gough-Watson—Yes.

Mrs STONE—You mentioned government to government business. Mr Grant mentioned that in his introductory statement. You argued that you are well positioned for that sort of work because there is a sense that you are a government agency and there is more trust and so on. But how many of those projects are government to government? Of those, for how many have you subcontracted out the work to a non-government supplier?

Mr Walters—They are government to government usually in the sense that the Asian Development Bank or the World Bank are providing the funds. They will provide the funds for a project in a country like Malaysia or they might lend the money to that country. Basically, what we are doing most of the time is going into a government department in the other country, showing them how we do things and giving them the benefit of some of our expertise.

Just to give a slightly bigger context to all of this: basically, most of our big jobs are for the World Bank or the Asian Development Bank. They are helping a number of countries to develop their own competence in education and training and to a lesser extent employment markets and so on. These jobs are obviously tendered out.

Our main competitors are the UK, Denmark and Germany. It is an area in which we would never take the whole field because it is in the nature of things that the agencies like to spread the work around. Quite apart from the competitive element, there is that sort of feeling that the work needs to be shared around and no one country should take the whole lot. But there is a market share there for us. It is an ability for us to show that what we have done in this country, particularly in the educational field, is good and of world standard, and to spread best practice.

What we are really doing is taking the opportunities which come our way to try to ensure that Australia has a voice in these things, particularly along with the big European countries, in trying to shape the way in which the education and training systems of our neighbours are developing.

Mrs STONE—You still have not answered my question: to what extent do you then subcontract out to other Australian providers, whether they are private universities or

public universities or whatever? My second question is on intellectual property. How are you ensuring that Australia's intellectual property in some of these areas, which is to do with our competitive advantage and our national advantage, is being protected in these sorts of exchanges?

Mr Walters—Subcontracting is quite a common way of going about these things, partly because sometimes you need a mix of expertise that comes from outside government and partly because sometimes we cannot free our own members of staff. The first call on our own staff is our own responsibilities and the secretary has to ensure that staff can be spared for a period of time to do this kind of work. Obviously, it can be a good career development opportunity for them, for example, so the department gains too.

Sometimes we cannot do that, so there are people who have worked with the department in the past who are on a register of possible contractors that we are compiling. We will go for them. Sometimes we will contract for help to the universities or the VET colleges and so on.

Mr Grant—Sometimes it is very difficult to draw the lines that you are asking us to draw. An example is one of the South African projects that Mr Walters mentioned. This is a project under higher education capacity building. This is not strictly, as Mr Walters mentioned, a government to government activity, but there is no doubt that the analysis that the South African government undertook itself of higher education systems and higher education reform processes around the world led it to the conclusion that its circumstances were perhaps best served by extensive Australian involvement in the project. Before AusAID or its contractor approached us to assist with this, there had been a number of South African delegations visit the department, including delegations of vice-chancellors of their universities, to discuss aspects of the policy reform process, so that is one distinction that is not entirely clear cut.

Likewise, the distinction between direct undertaking of this work by the department itself and the use of subcontractors on our own account is not straightforward. In the case of that project, for example, a senior officer of our own department was released for a period to participate and assist in the process of developing a white paper by the South African government on higher education reform, but in the scheme of the total activity that officer was but one of a range of consultants used. In that sense, it is difficult to classify these projects as being wholly in one category or another.

Mrs STONE—I guess what I am driving at is that, if you are subcontracting a lot of your work and in turn are subcontractors to others, it makes your argument that you need to be in there for part of the national good somewhat spurious, doesn't it?

Mr Grant—That is an interesting point. I think there are a couple of responses. Firstly, there is no doubt that, partly because of our reduction in the size of this activity within the department itself, we are needing to rely more than we did in the past on

external expertise and resources rather than providing our own, but I understand the point that you are making. However, it is the case, particularly where the work involves in effect dealings with foreign governments, that they view the involvement of government at the Australian end as being important not only symbolically but also as some assurance of quality and effective management of the project.

Mrs STONE—I can see it as a marketing tool as you are describing it.

Mr Grant—Sure.

Mrs STONE—But then do you need a unit of seven people for that end? Do you just simply need the current DEETYA officers with one or two persons skilled in that liaison work with other agencies? Do you need to have a capability yourself in the organisation if what you are describing is a reality?

Mr Grant—I understand. Circumstances vary as I have tried to describe activity by activity. I can assure you that the unit of seven, which is about half the size now of the corresponding unit just a few years ago, is significantly stretched in managing the program of work that it has on its books. I do not think that there is any suggestion that they are lightly tasked in any fashion.

Mrs STONE—I was looking at your deficit, for example. I can think of lots of other DEETYA activities which would love to have those sorts of dollars to prop up their work rather than have that deficit sitting there.

Mr Grant—This is the $1.4 million?

Mrs STONE—Yes, that is right.

Mr Grant—That is an old figure, of course.

Mr Walters—I could comment on the $1.4 million figure. That predates the accrual accounting system and at the moment we are estimating that the operation is more or less breaking even. That is an historic figure and it dates from a time before when it was possible to separate out the public service obligation component of this unit. For example, of the seven staff, one member of staff is occupied full time on the international recruitment service, which does not actually form part of this business. That is taking international notices of vacancies from international organisations and moving them around the system here in the hope that Australians can fill those vacancies. It is not really part of that business, so the $1.4 million figure is really rather misleading. If it was done on a present day accrual basis, we anticipate it would be a lot less. At the moment certainly the operation appears to be breaking even.

Mrs CROSIO—Mr Walters, what is the difference then between DIST and the

international division of DEETYA?

Mr Walters—The international division is not a separate division any longer. It forms part of a division with other responsibilities, such as the youth bureau. Basically the main responsibilities of the international group, which is two branches of DEETYA, are twofold. One is to pursue international policy objectives, so you can imagine that we have a constant stream of education ministers coming here and occasionally our ministers do make overseas visits to their counterparts. That all needs servicing. There is a whole raft of memoranda of understanding between universities here. There are issues such as recognition of our qualifications overseas. Education is a very international business these days. There is a lot of ground clearing work. In many countries the state control over the education system is far greater than it is here, so it requires government to government contact to unblock certain things to enable our qualifications to be recognised. There is a whole lot of work like that. That is one half of it.

Then we have an organisation called Australian Education International. In an announcement on 11 May, Dr Kemp announced that this was going to continue to be funded after this year. It basically exists to promote Australian education overseas, and runs Australian education centres in a number of countries whose purpose is to promote the quality and competitiveness of our education providers. We have 140,000 overseas students in this country every year. We did have last year and we expect to have about the same this year. It is a very competitive market out there. We are competing with the USA and the UK in particular in the English language field, so it is an important part of our function to help the industry sustain its market share. Those are the two main functions of the international division. The seven staff who work on this particular work are co-located. Their purposes and their working methods are integrated with the rest of the staff.

Mrs STONE—There is just that one extra part of the question I was asking before about the intellectual property—the fact that a lot that we do in Australia relates to our competitive edge. If we are doing a lot of this overseas, while we all love sharing and caring together, how do you make sure that any of our intellectual property, perhaps our IT systems or whatever, is properly guarded?

Mr Walters—That is a very interesting question. What we tend to be directly selling in DIS is the expertise of our staff and the subcontractors we take on. They go with a very small suitcase. They do not take large amounts of equipment. We are not selling fighters or anything like that. They go with themselves and what is between their ears and there is no—

Mrs STONE—That is what intellectual property is all about.

Mr Walters—It is, except it is not the sort that you can actually protect. In that sense, we are not selling them a model that we have patented or something like that. Where I hope that Australian intellectual property gets to be exploited is that, by selling

Australian ideas and expertise, we direct attention to what is happening in this country; we direct attention to some of the course work, some of the software and so on. So we hope to get that sphere of influence, which is very much the reason why the British, the Germans and the Danes are very keen on this kind of work. It is not just because of what happens at the sharp end but because of the continuing influence and the continuing focus of attention on Australia, our expertise in these areas and our products, which we hope will run for years to come.

Mrs STONE—Going back to the questions that Mrs Crosio was asking about the international education line, you referred to that part of your work. The British model is different from ours in terms of how they have their union of different agencies working together under the one banner and they have offshore locations and officers. I am just wondering how you work in with the Australian Vice-Chancellors' competing function in terms of promoting Australian fee paying courses offshore and joint ventures on research and development. That has been a problem in the past, hasn't it?

Mr Walters—We study overseas models and some of them are very good. Ours is particularly directed to this region, but we also think it is very good.

Mrs STONE—But we are actually losing market share substantially in regard to our full fee paying students. New Zealand is beating us hands down.

Mr Walters—Not entirely true.

Mrs STONE—In our region they are, in terms of what they have done in Malaysia, Thailand and so on.

Mr Walters—The New Zealand share of the market is still very small. Ours is quite proportionately large and stands up, if you compare the circumstances, very well with our main competitors, which are the USA and the UK.

One of the interesting things—we discussed this in the Senate estimates hearings this week so it is fresh in the mind—which has happened recently is the currency movements which have actually favoured us very much indeed. So the cost competitiveness we now have over the USA and the UK, which was always a significant factor, is now very large. We are trying to stress not just the cost competitiveness but the value for money and the quality which people can get from an Australian education. We are far from depressed about that.

If you look at the latest projections, which I could table, they are actually quite encouraging in the higher education sector; they are quite encouraging in the vocational education sector. Where we find that they are less encouraging at the moment is in schools and in what is called ELICOS, which is English language short courses. These are areas where people tend to take more short-term decisions, particularly on the English

language courses, so it is not surprising that the Asian currency crisis has had a short-term impact which we hope will bounce back as things recover.

What we tend to find with undergraduate and graduate courses is that people tend to take a much longer term decision. They may even have put money aside, not necessarily in the host country, for their children's education, and those plans seem to be going ahead. The numbers are holding up well and it is quite possible that we are being helped by the fact that an education in Europe or in the USA has now become very much more expensive.

ACTING CHAIR—With regard to the short-term decisions on the question of schools and English language which you mentioned, why are the projections lower? You are saying they are shorter term decisions, but does that mean that fewer people from those countries are taking those courses or that more of them are actually going to the UK or whatever?

Mr Walters—The numbers are down in both of those sectors, and our projections are down.

ACTING CHAIR—They are down in a global sense in terms of fewer people doing the courses rather than more going to the UK or the US rather than coming here?

Mr Walters—We have not got the UK or the US statistics, as much as we would love to have them. We do try to monitor the competition as well as we can. But I have noticed from the trade press in the UK a great deal of concern in some of the sectors over there. They have the dual effect of the Asian currencies going down and their own currency going up, so there is very much that concern.

It is worth bearing in mind that, if you look at the balance of numbers overall, we are still looking at maintaining roughly the same number of students, because there has been a rise in the higher education and VET sectors which has, at the moment, compensated for the decrease in the other sectors. The interesting thing about that is that the courses are longer, so one student in the higher education sector is going to be here for a good deal longer than somebody who comes for a short English language course.

There are all sorts of swings and roundabouts, but it is certainly not a situation where we should despair too much. The industry has been enjoying remarkable growth over the last few years. The number of overseas students has doubled in the last four or five years. It was never going to go on growing at quite that pace; nevertheless, it is a $3.3 billion a year sector of the market. It earns us $3.3 billion a year and it will continue to be a substantial, important industry and one which we hope will resume on a growth curve before very long.

ACTING CHAIR—Sure, but in relation to the English language and school

courses it appears that other places are down as destinations as well?

Mr Walters—In all probability; without having the figures, it seems highly likely, simply because many of the Asian countries do not have the money to spend. That is not the sole market. There are growing markets in other parts of the world. For example, South America is coming up. If you look at the USA situation, I would expect that they are doing quite well from that part of the world. We are picking up increased numbers.

Also, there are parts of the Asian market that are still doing very well for us. India has been increasing rapidly. Vietnam has been increasing rapidly. It is from a reasonably low base but, even so, we are projecting by the year 2001 that we will have something like 10,000 students a year coming from India, which is a substantial chunk of that market. You can imagine how potentially large that is. There are all sorts of opportunities. The key things for us are to project the quality of Australian education and also the value for money.

ACTING CHAIR—You are not seeing any impact from other factors of a more current nature in the Australian political situation?

Mr Walters—We keep tabs on that. Obviously, the Australian political situation is well reported around the region. I suspect that it has the same impact on our industry as it would have on any others, both positively and negatively in terms of how things go. We do know that one of the factors which weighs with people when they send students here is that they find the place friendly and safe, and long may they continue to do so.

ACTING CHAIR—You are not seeing any evidence yet of the fact that that may be changing?

Mr Walters—I do not think so. We do know that events here are monitored fairly closely overseas.

Mr Grant—Just yesterday we received quite a number of press clippings, particularly from the region, of recent events on the Australian political scene. As I recall, there was no strong emphasis directly connecting those events with education and training developments. It is evidence that we do seek to monitor. If it were helpful to the committee, picking up on Mrs Stone's question earlier, we would be happy to table the historical information about trends in overseas student numbers, if that is of interest to the committee, the projections that Mr Walters has referred to, and also such evidence as we have about market shares of particular countries.

ACTING CHAIR—That would be handy.

Mrs CROSIO—While we are in a tabling mode, I notice on page 42 of the auditor's report that, as part of the review being undertaken by DIS at the time of the

audit, they were identifying ways of improving the quality of its tenders and service delivery. Has that review been completed and, if so, could we have that tabled as well?

Mr Walters—I do not think there was a specific report on that issue. There was a report, which we could table, on the way in which we are perceived by customers, which was fairly positive. It was done by an independent consultant and it gave us some sort of feedback. In terms of the tenders and service delivery, obviously it is something which we look at continuously and you get feedback from particular markets. You can imagine that the way they operate in some of these different countries is very singular, and it is something you have to get on top of if you want to win continuing business.

The other thing is that the international agencies have their own requirements for tender documentation. The one thing they all seem to have in common is that they like it by the tonne. We talked about the functions of this unit. A great deal of the time is actually spent on getting the tender documentation, which sometimes goes through three or four iterations, in exactly the right format that is going to satisfy people like the World Bank. It is very thick. It is a process of our continuous improvement—or continuous adjustment, at any rate—in the light of market conditions. If it would help, we could certainly table the report on how we are perceived in the market, which would give the committee some idea of the factors that we have to bear in mind.

ACTING CHAIR—I would like to ask a question on community service obligations and how that fits into what you do and the whole question of cost recovery.

Mr Grant—I think the chief community service obligation is activity associated with the Australian International Recruitment Service. I will ask Mr Walters to describe the nature of that service in a moment. The important thing, within the framework of the ANAO report and recommendations, is that we have taken steps, within this admittedly modest operation, to identify clearly community service obligation elements and to identify also the costs and resources that are attributed to such activities, so that what is and needs to be commercial is operated, essentially, along commercial lines and what is in the nature of a community service obligation is treated in the appropriate way, distinctively and separately from the rest of the operation. I highlight the modest scale of this activity. As I recall, the staffing resource devoted to this Australian International Recruitment Service is one ASL.

Mr Walters—Yes, it is one member of staff. This is a job which has been attached to various bits of various organisations over the years. As you can imagine, what happens is that notices turn up in Australia of vacancies in international organisations and, unless someone takes the trouble to circulate them, Australians do not get these jobs. That would be a shame because the fact that Australians get jobs in international organisations means that there is an Australian presence, there is a knowledge of Australian business and, when it comes to letting tenders to Australian organisations, there are people in those

organisations who know about us. It would be a great shame to cede all those jobs to other countries. Therefore, it is seen as in the public interest to make sure that people know the vacancies have come up and give them a chance to apply for them, to know where to get the application documentation and that sort of thing.

I have some statistics on that. Over the last couple of months, the organisation—one person—distributed 206 international vacancies lodged by the United Nations and other international agencies, with an average of approximately 23.75 per week. That seems very precise to me, rather than approximate. I even have the job categories: physicists 115, mathematicians 105 and so on. I am sure you would not want me to go through them all.

That is the main community service function, but there are also aspects of the work of the section, such as responding to corporate needs for briefing and so on, which the accountants have judged not to be appropriate for accrual accounting. They are discounted, too. The main thing, as I say, is that one person does that, which really means that the rest of the work is conducted by six staff.

ACTING CHAIR—ANAO has had a pretty quiet time. Would you like to comment on anything that has been said so far?

Mr McPhee—I think the department has responded positively to the audit. It has been a positive stimulus. I think the thing we need to bear in mind is that it is a very small sector of the department's activities. I think the systems and the approach need to be measured accordingly. The thing to bear in mind is that the risks are reasonably substantial. It seems to me that an issue for the department into the future is the critical mass issue and how, with only seven staff, it is going to manage to provide expertise, et cetera. It seems to me that, even though it is small, the risks are pretty high and it would be something that the department needs to keep in view.

ACTING CHAIR—It is an interesting issue in terms of a case study, regarding just what is happening around that question of commercialisation.

Mrs STONE—Given that you have identified your CSOs as basically in that area of international recruitment and so on, does that mean you are going to full cost recovery, which includes a margin for all of your other activities? Is that what you are saying?

Mr Grant—Yes.

Mr Walters—I missed the start of the question. On the international recruitment, that is seen as a Public Service obligation, so we do not attempt to levy a charge from the people who make inquiries about these jobs.

Mr Grant—But your assumption is right, Mrs Stone. Putting that to one side, the objective for the other activities associated with the other six staff is basically as you have

described it.

ACTING CHAIR—Thanks very much for that. We probably got off the track a little bit, but it was certainly interesting. That is all for now. We have got the papers from you. We will handle those procedurally at the end of the day, but we do not need you here for that. Thanks for attending.

Proceedings suspended from 1.21 p.m. to 3.07 p.m.

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JONES, Mr Stewart, Team Leader, Industry and Resource Policy, Taxation Policy Group, Department of Treasury, Parkes Place, Parkes, Australian Capital Territory 2600

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CRONIN, Mr Colin Douglas, Executive Director, Performance Audit, Australian National Audit Office, GPO Box 707, Canberra, Australian Capital Territory 2601

HOLBERT, Ms Frances Elizabeth, Senior Director, Performance Audit, Australian National Audit Office, GPO Box 707, Canberra, Australian Capital Territory 2601

McPHEE, Mr Ian, National Business Director, Performance Audit, Australian National Audit Office, GPO Box 707, Canberra, Australian Capital Territory 2601

ACTING CHAIR—We now come to the final session of today's public hearing. This afternoon we will be taking evidence on Audit Report No. 38 1997-98, *Sale of Brisbane, Melbourne and Perth airports*. I remind witnesses 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 parliament. The evidence given today will be recorded in *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 secretariat staff. I welcome representatives from the Australian National Audit Office and representatives from the Office of Asset Sales and IT Outsourcing, the Department of Transport and Regional Development, the Australian Taxation Office Development Allowance Authority and the Department of Treasury to the final session of today's hearings.

The main purpose of this session is to examine some of the key issues identified in Audit Report No. 38. The issues the committee will pursue include: the efficiency and effectiveness of the conduct of the phase 1 airport sales process, accountability and transparency, and the extent to which the government's sale objectives were achieved. The committee will also examine the relevant weighting given to financial and other public interest criteria. With that background I would like to provide an opportunity for a brief opening address, or addresses, from a representative of each of the agencies giving evidence today and to the ANAO. We might start with the Office of Asset Sales. Would you like to make an opening statement, Mr Hutchinson?

Mr Hutchinson—The Office of Asset Sales and Information Technology Outsourcing regards the sale of these three airports as having been highly successful by any measure of outcome. That result was achieved by a robust, innovative and effective process—although certainly not flawless—that reflected well on those who were involved in it. I was delighted that my colleague Ross Smith, who led this transaction, had that contribution recognised by the award of a Public Service Medal in the recent Queen's Birthday honours list.

Without in any way resiling from our view of that process and its success, we also freely acknowledge that, as with any real commercial process, there are always things that could have been done better, either with the benefit of hindsight, or with the luxury of more resources, or with more time at critical junctures. We therefore welcomed the ANAO review of this transaction.

In the broad, we do not disagree with the recommendations that the ANAO has made, although we hold the view that their adoption would not have made any material difference to the substantive outcome of this transaction. Many of the changes that they recommend had already been identified and implemented in the course of the recently completed phase 2 of the airports transaction. Others were adopted as that sale proceeded and have been adopted as appropriate in the course of other asset sales.

Our disagreements with the recommendations are minor, and our qualifications and single disagreement have to do mainly with real life practicalities. That said, there were aspects of this report that did concern us. The balance of the focus on process rather than outcome appeared to us to be inappropriate. The review of the process elements without adequate recognition of their materiality in relation to the overall project and its outcome concern us because of the effect that responses to such findings may have on the proper balance between risk avoidance and risk management within a major process.

ACTING CHAIR—Thank you. The Department of Transport and Regional Development—Mr Quinlivan?

Mr Quinlivan—We have got nothing substantive to add to the comments that Mike has made. We thought that it was a good process with good outcomes and it is part of a series of changes happening in the aviation industry which are fundamental and which are going to lead to a much better industry.

ACTING CHAIR—Mrs Ashmore-Smith, do you want to make a statement?

Mrs Ashmore-Smith—Yes. The ATO and the Development Allowance Authority that were separate agencies at the time these events took place were consulted in the process and had input to that consultation in terms of the airport sales. I do not think that I can add anything to that.

ACTING CHAIR—Mr Jones?

Mr Jones—I have nothing to add.

ACTING CHAIR—Mr McPhee?

Mr McPhee—Thank you, Mr Chairman. The simultaneous sale of the three airport leases was the third largest asset sale ever conducted by the Commonwealth government and the largest ever trade sale. The ANAO's objectives in auditing the sale were: to review the extent to which the government's sale objectives were achieved; to review the administrative efficiency of the management of the sale process, and to assess whether the sale arrangements adequately protected the Commonwealth interests.

The ANAO found that the sale was substantially completed in 1996-97 in

accordance with the government's sale timetable and it generated gross proceeds of $3.31 billion, significantly in excess of book values and scoping study estimates. The sale proceeds also compared favourably with international airport privatisations in Europe. We also found the direct costs of the sale were $153 million which included $94 million in lieu of stamp duty but excluded indirect costs of $688 million from the Commonwealth's assumption of Federal Airports Corporation debt.

The bid accepted for Melbourne of $1.255 million was the highest net price offer after the highest offer price was adjusted for the estimated taxation revenue effects of infrastructure bonds. We found that agencies effectively minimised the Commonwealth's residual risks and liabilities. Each of the new airport operators was considered to have the necessary financial strength and managerial capabilities to operate and develop the airport over the lease term. The bids were highly geared.We also found that bids were assessed appropriately and that there was fair and equitable treatment of employees at the sale airports, including preservation of their accrued entitlements.

The ANAO considers that for future airport trade sales, administrative procedures should be strengthened in the areas of facilitating bidder due diligence, sale documentation, adherence to Commonwealth procurement guidelines, and use of tender evaluation committees. For a variety of reasons a small number of the over 30 contracts let for the three-year period of the sale were not competitively tendered. Contracts were not finalised and signed in a few instances, and a number of contracts let during the sale did not include performance monitoring arrangements such as reports on progress resources used in the costs.

There were no written contracts for the design, typesetting and printing of the tender documentation, a task which cost in total over $900,000. The ANAO made 11 recommendations, all of which were agreed to, or agreed to with qualification, by the relevant agencies with the exception of part B of recommendation 4, which concerned capping of contracts, with which the Office of Asset Sales and IT Outsourcing disagreed.

In terms of Mike Hutchinson's comments about the strong emphasis on process, I just make the point that the audit report does recognise a successful sales outcome. But, I guess, we have seen over the years the importance of process to achieving a good outcome as well, and how, in fact, sometimes fairly ordinary process can undermine a very good outcome. We would say that the suggestions we have made through the Office of Asset Sales were intended to be constructive to assist future sales. I will just introduce the audit team. Colin Cronin, Brian Boyd and Fran Holbert were the senior audit staff and we would be happy to respond to the committee's questions.

Mrs CROSIO—Going through the audit report I have a bit of concern, I must admit, especially on page 22, regarding legal advisers. My question is addressed to Mr Hutchinson as secretary of office sales. It says:

The Clayton Utz contract was not fully capped and payments averaged $250,000 per month, significantly in excess of average monthly payments under the previous contract.

The audit also found that you introduced fixed fee arrangements, or fee caps, in a number of instances—again, on pages 22 and 23. Could you tell the committee why that particular contract was not capped?

Mr Hutchinson—The short answer is that the competitive tendering for that part of the legal work which Clayton Utz won did not give rise to an acceptable tenderer that was prepared to accept a price cap for that work. The reason is that at the time we selected that legal adviser the scope of work was not clear within a wide margin. Clayton Utz were retained essentially to handle the sale documentation and the commercial legal aspects of negotiation with the bidders. We did not know how many bidders we would be faced with and, indeed, we were lucky enough, or skilful enough, to attract a fairly large number of bidders. Clayton Utz tendered on a time and materials basis, rather than on a fee cap basis, and they were paid on that basis. They were selected from a competitive field of parties that tendered on that basis.

Mrs CROSIO—Was their work completely different from that which the Australian Government Solicitor provided to you?

Mr Hutchinson—Complementary. The Australian Government Solicitor handled, essentially, the due diligence work, the assembling of information and the preparation of sale. AGS handled the high end commercial legal work and sale documentation.

Mrs CROSIO—No overlapping whatsoever of any work?

Mr Hutchinson—Complementary work usually involves some overlap in order that there is not an arms-length handover with risks and gaps, but in general the roles were separate.

Mr Lewis—The overlaps were minimal but, where there were overlaps, that actually proved quite useful to us. Occasionally you got the different perspective between the Australian Government Solicitor on the one hand, with their grounding which is very strong in relation to Commonwealth legislation and administrative practices, et cetera, and on the other hand, Clayton Utz, with their commercial expertise. But you are quite right: the AGS agreement was a fixed arrangement; the Clayton Utz one was not. But we recognised that risk going into it, so we put in place at the start of that six-month arrangement a very close monitoring of the Clayton Utz expenditure.

We required Clayton Utz each month to provide a forecast of their expenditure across each of the main work streams that they were involved in and we vetted that at the start of the month to see whether we were comfortable with the work they were proposing to do in each of the assigned areas. On occasion we changed the nature of the work they

were involved in just to make sure the balance was right and that the overall expenditure pattern was something acceptable to the Office of Asset Sales.

We also capped the overall arrangement. I cannot recall at the present time precisely what it was, but it was about $1.8 million, or thereabouts, for the whole period. So there was no opportunity for a blow-out of costs on an unacceptable basis. We actually had a control over the funds approval process and we very closely monitored on that monthly basis and, also, on occasions we queried mid-month in relation to how their forecast was going. And, of course, at the end of the month when they submitted a bill we checked that very carefully against what their forecast was and, again, there was a reconciliation of that. Picking up on some of the points that Mr McPhee might have mentioned in relation to the audit report which talks about the importance of milestones and close monitoring of contracts which are not put on a fixed basis, that is precisely the kind of arrangement we had in place in relation to Clayton Utz.

Mr BEDDALL—In this second transfer that has just taken place and in, eventually, the third, now that this type of work is established, do you think there will be a saving for the Commonwealth and that you will be able to get fixed type contracts?

Mr Lewis—In the case of phase 2, you are quite right: the answer is, yes. We have a fixed price contract with the Australian Government Solicitor in relation to the phase 2 sales. In relation to phase 3, the jury is out at the present time, but phase 2 was a fixed price contract for the 15 different transactions.

Mr BEDDALL—Part of the concern from the audit office is that in the past there has not been that economy of scale of saving. Always the first are the most difficult and then you should expect that down the track when the work is more—

Mr Lewis—We certainly achieved those economies of Scale, Mr Beddall. We were able to take forward a large part of the mosaic of the sale documentation—the sale lease, the sale contract, the transition agreement, the ministerial declarations and the essential legal framework—from phase 1 and play it out in phase 2. There was the need for amendments to all of those documents, as you would expect, but we had the essence from phase 1 so we achieved some very substantial economies as a consequence. So if you were to compare the 15 transactions in phase 2—the cost of those 15 transactions—with the cost of phase 3, we achieved some significant economies of scale.

Mr Hutchinson—There is also another relevant commercial background to the relationship between the Office of Asset Sales and Clayton Utz in this particular assignment. In parallel with but slightly ahead of this transaction, Clayton Utz had accepted an engagement from the Office of Asset Sales for a fixed capped fee for their work on the legal work for the sale of the Commonwealth Bank, phase 3. That fee was commercially disadvantageous to Clayton Utz in the outcome and at the time they were tendering for this work they had come to realise quite how disadvantageous the

Commonwealth Bank phase 3 transaction was to them. They had lodged applications with us for supplementary fees to bail them out of that problem and it was going to be very difficult in that sort of environment to get them to accept a fixed or a capped fee for work on another assignment.

Mrs CROSIO—But you are not suggesting that they were bailed out through this contract, are you?

Mr Hutchinson—No. They were certainly not bailed out through this contract. But their experience on the other contract, of which there were some partners in common, certainly made them feel very nervous about accepting any fixed contract and it proved impossible to get them to accept a fixed fee contract.

Mrs CROSIO—Between them and the Australian Government Solicitor, was there any difference between the remuneration packages?

Mr Lewis—They were quite different. The remuneration basis was different in the phase 1 sales. In the case of the Australian Government Solicitor, it would not be readily possible to reduce them to a standard because, of course, there was an all-in fixed fee. So, in a sense, it did not matter how many hours they worked on assignments; they just had to get the job done for that fee. In the case of Clayton Utz, they were on a fee for service basis.

Mr Hutchinson—It is relevant that when Clayton Utz, among others, tendered against the Australian Government Solicitor for the work on the phase 2 airport sales, there were very significant differences in price quoted between the Australian Government Solicitor and Clayton Utz for the same scope of work—which was partly why the Australian Government Solicitor was awarded the work and Clayton Utz was not.

ACTING CHAIR—The AGS had a fixed price contract on phase 1, and also on phase 2?

Mr Lewis—Yes.

Mr Hutchinson—It would be fair to say that Clayton Utz were also prepared to accept a fixed price contract on phase 2, where the scope of work was by that time well defined.

ACTING CHAIR—Sure. But when it came to the tender process on phase 2, they were significantly higher than AGS?

Mr Lewis—Correct.

Mr Hutchinson—Correct.

Mrs CROSIO—Can I take you further into that type of questioning? I am sure my colleagues will have other questions they want to ask. Further on in the Auditor-General's report it was found that you were advised on 10 September 1997 of a possible overpayment of $79,030-odd to a business adviser, and that three weeks later the business adviser repaid the amount. Could you tell us how that oversight would have occurred and why it took until September to discover it and have the amount repaid?

Mr Droga—The billing arrangement in the contract basically stems from a monthly retainer amount. We were paid monthly retainers during the course of the transaction. When it came to the December year-end monthly retainer, it was rounded up to the year end inadvertently by BZW, when it should have been cut off slightly earlier, by about 13 days. The bill went out. It was paid by the Office of Asset Sales under the normal sort of programming system. The dollar amount was $79,000 or something like that. We did not detect it. They did not detect it. It was an error on our part, quite frankly, and it was only when the audit office detected it subsequently that—

Mrs CROSIO—It was not that two bills were provided and you paid both bills?

Mr Droga—No; it was not two bills. The audit office might contradict me on this, but basically, as I understand it, a bill went out for the normal amount, when it should have been adjusted backwards. All the amounts were rebatable up to the end of December 1996. Thereafter they became non-rebatable, and when we actually rendered the bill an adjustment was made inappropriately. That was the background, basically. It was an oversight on our part. It was not two bills.

Mrs CROSIO—I know it is only a very small bill when we are talking about the whole contract. I acknowledge the report that you gave at the beginning of this particular hearing, but could I pose this question? If an audit had not been done, would this have ever come out?

Mr Hutchinson—I believe it would or should have been detected.

Mrs CROSIO—It should have been, we believe; but would it have?

Mr Hutchinson—It should and would have been detected in the annual audit of financial statements.

Senator HOGG—Why were there not processes in place to pick this sort of thing up on the way through?

Mr Hutchinson—There were processes in place. There was an error in the application of the process. It was not the absence of process. The process that we have in place requires an accountable officer to certify that the account is correct. An officer certified that it was correct. The checks he did to ensure it was correct were done

incompletely. It was simply a human error in the application of the process.

ACTING CHAIR—In terms of a time line for your annual accounts actually producing a result such that you would have spotted it, when would that have happened?

Mr Hutchinson—The erroneous payment was made in December 1996. It should have been picked up by our financial audits on the year ending 30 June 1997.

ACTING CHAIR—When would that have been completed?

Mr Hutchinson—September 1997.

ACTING CHAIR—Isn't that when the audit office found it?

Mr Hutchinson—I would have to go back and check our records. My recollection is that it was disclosed to us while our financial accountants were preparing the financial accounts. Whether they had got to it and missed it, or whether they had not yet got to it, is impossible to tell.

ACTING CHAIR—Which brings us to the definition of 'should' and 'would'.

Mr Hutchinson—I guess there is also the matter that I understand that accountants—of whom I am gratefully not one—work on a concept of materiality and sampling, and it could have been that that transaction might have escaped the sampling or the materiality test.

ACTING CHAIR—Can I get a comment from the ANAO?

Mr McPhee—I think the latter comment would be correct. I suggest it would be unlikely to be picked up in a sample because of its materiality. But the other important point that I would make is that it is up to the agency to ensure its own control framework works properly, and it should not rely on auditors coming along after the event to detect errors.

Mrs CROSIO—Further to that, on page 26, at 2.56, it advises that the auditor had advised your department on 10 September 1997 of that possible overpayment, and then the business adviser had confirmed the error and repaid the amount on 20 October 1997. It was quite a substantial time after December 1996, wasn't it?

Mr Hutchinson—We freely acknowledge that the amount, once paid, would have escaped detection unless it had been picked up in the course of the preparation of financial accounts.

ACTING CHAIR—On the question of processes, essentially a problem has been

found—albeit small in some respects, given the size of the overall project, but still significant, I would argue. Are there changes now in your processes internally which would mean that this would not happen again?

Mr Hutchinson—The arrangements governing financial administration of agencies have of course changed since that time with the introduction of the FMA Act. Our processes that we have in place under the FMA Act have stressed the importance of the proper checking of accounts. I am not going to claim that our processes are flawless, but we believe that the process we have in place, if applied with the diligence that we require and the controls that we have in place, should prevent and detect any material breaches of that sort.

ACTING CHAIR—What is a big merchant bank like yours doing, Mr Droga, missing a payment like that?

Mr Droga—I will say in their defence that they are extremely thorough in checking things. This has been our experience over a long period of time. It is perhaps surprising that this one thing, which was something of an anomaly in the way the billing system worked at that period of time, was not picked up straight away by them. As I say, they are very thorough in the way that we deal with them. I am not saying we have had a history of any of that at all, but things are generally tested, questioned, checked and confirmed. An administrative processes surrounds that which is quite rigorous, in our experience.

ACTING CHAIR—With respect to the Office of Asset Sales?

Mr Droga—Yes.

ACTING CHAIR—What about your processes, though?

Mr Droga—Ours are usually pretty thorough. We have been adviser to the government over a four-year period and, in my experience, this is the first thing of this nature that has occurred. In that time, I suppose we would have rendered a considerable number of invoices of a complex nature—probably over 50 or 60 invoices. That is a guess, but it would be a large number of invoices, so this is one out. It is significant in a sense, but in another scheme it is not relative to the total; but I take your point that it is a significant amount. It would be unusual for us to have this happen, and I suspect it is very unusual for the office.

Mrs CROSIO—I would hate to think we overlook five figures but pick up six figures. As it was only $75,000 and not $750,000, perhaps it was not picked up; but add all the small ones up and you get a lot of big ones.

ACTING CHAIR—The audit report states that the business adviser did not bear

the effective financial risks associated with the contracts it managed on your behalf. These included the investigating accountant, data rooms, design, typesetting and printing of tender documentation. This contract has involved significant cost overruns, with the final total costs ranging from almost 1.5 times to more than 3.5 times the initial estimate. Could you elaborate on that and comment?

Mr Hutchinson—We spent a lot of time with the audit office on this particular issue. The two major contracts—I think I have this right—they had in mind there were a small proportion of the $30 million total sale costs. Essentially the major outsource contracts description in the finding really applies to the major logistics supplier contracts and not to the major outsource contracts. The sum of money involved is of the order of $2 million or $3 million, rather than the $30 million or $31 million we spent on the sale.

There were two contracts. Firstly, the printing contract gives rise to the figure of 3.5 times—a figure which is, in our view, a little misleading because the original contract was quoted a figure of about $250,000 for printing, plus unspecified typesetting costs.

It was a failure to get satisfactory service from that printer, and a failure to get them to pin down the contract, that led us to cancelling the arrangement with that printer and moving the contract to a second printer in whom we had more confidence so that we could meet our time deadlines and quality deadlines. His cost was $293,000, plus agreed rates for typesetting, but without a fixed price attached to the typesetting. It was the typesetting component of the contract which gave rise to the increase in the cost above $275,000. We finally paid $970,000 to that printer for printing in total.

ACTING CHAIR—So the typesetting was about $600,000?

Mr Hutchinson—No, for the typesetting the settlement reached with the printer was about $600,000, against a bill of $1 million that he submitted to us. There was a dispute between us and the printer as to how much of the rework that the printer had done was reworked for his own errors, and how much was rework that we had caused.

The causing of the rework on the typeset was complex. Essentially, we moved from word process format to typeset format earlier than, with hindsight, we should have done. We took what we thought was a finished document to the typesetter, only to find, when we submitted that document to the final quality assurance checks—particularly with the FAC who were required to verify the document for process audit purposes—that the FAC required significant rewrites before they would verify the documents.

Those significant rewrites were done in typeset mode at high cost, rather than having been done in word process mode at low cost. The further we got into the requirement for the FAC to sign off, the more changes they appeared to require to the document. The process escalated against a very firm deadline in the sale process. That is the story behind the cost.

There are a couple of other stories behind those contracts. It proved to be very, very difficult, if not impossible, to get printers who had the capacity to produce work of the quality and quantity required within the time scale to accept the sort of standard Commonwealth contract. For that reason, we ended up without signed contracts for that sort of work. These people were just not prepared to waive their rights against the Commonwealth in respect of indemnities and the like.

Senator HOGG—Why is that? That is a fairly important issue. There were two contracts, you are saying, but neither of them were signed.

Mr Hutchinson—The first contract was not signed before it was terminated. The second contract was not signed before the work was finished. It is not unusual in the commercial sector for people to commission work of this scale without a signed contract, just as you do not sign a contract for what is fairly small-scale work in a household area. We certainly set out to impose a contract on these people. We failed. Why was it? These people just declined to accept the standard form of contract we had in mind.

ACTING CHAIR—Was that the same thing with the superannuation advice, the AGS insurance advice?

Mr Hutchinson—No. That is just the printing contract with this—'We will not accept the standard terms of your contract.'

The second major contract in this area was the contract with KPMG for the management of the data room. Essentially, a similar situation arose there, that, at the time the management of the sale was being transferred from the former Asset Sales Task Force in the department of finance to the newly established Office of Asset Sales—and at the time we were reducing our in-house staff and assigning more of the workload to, largely, BZW, ABN and AMRO—we thought we had completed the assembly of the documentation for the data rooms, and we agreed with KPMG a figure for the copying and management of the data rooms material from a source library.

In the course of KPMG preparing their copies and verifying indexes and the like, it rapidly became apparent that, for a range of reasons, the documentation was not as complete and as ready for distribution to the data rooms as we had thought. As a consequence, the work KPMG were asked to do was expanded in order to remedy the defects in the documentation. They were the two major contracts by volume. The other contracts—superannuation advice—I will have to ask Mr Lewis to comment on.

Mr Lewis—I cannot recall the details of it, Mr Chairman, relative to the other two. It was a very small contract.

ACTING CHAIR—Yes, $130,000, something like that, I think, for superannuation advice. I am going by the audit report, page 23, footnote 33.

Mr Lewis—I am not sure I have noticed that footnote before.

ACTING CHAIR—Right. While you are looking at that, perhaps we will get a comment from Audit.

Mr Boyd—That is in relation to an increase to the KPMG contract. They were initially hired to write investigating accountant services, and it was the third contract we referred to in terms of the increased costs. The investigating accountant contract initially was expected to cost $1.02 million. It ended up costing $1.45 million. In addition, the firm had provided the investigating accountant services, as well as the data room being KPMG, and were also later asked to provide superannuation advice without a tender. That then led to the advice being provided for a cost of $130,000. There was also not a contract executed for that.

Mr Hutchinson—That particular issue of the extension of the scope of work for advisers who are already engaged is quite an important point. We would argue that it is not required by the Commonwealth purchasing guidelines, nor is it cost effective, to retender every additional piece of work that becomes necessary during the sale. If we have an adviser in place who has already been selected by competitive tender, if the work is a small addition to their work, if their sole source quote for that work or their rates for doing that work appear to us to be competitive at the time, it is just not worth putting the industry through a competitive selection exercise.

ACTING CHAIR—I think that is fair enough.

Mr Hutchinson—We would customarily have some documentation by way of an exchange of letters which would say, 'Look, while you're on, would you take on this extra work and give us some advice?' There are occasions in the heat of the moment—and we have a number of them in some of our premises—where we discover, at five minutes to midnight, that there is an area of advice that we need and that we need urgently. And I am not saying this is necessarily the case with superannuation because I do not know. On occasion we will commission that orally. The caravan moves on and the bill comes in, and we think, 'That was all done on the basis of oral advice.'

ACTING CHAIR—Fair enough.

Mr Hutchinson—The audit office will quite properly pick us up afterwards and say, 'There was not a very good documentary trail for that,' and we will hold our hands up and say, 'You're right; there was not a good documentary trail there.'

ACTING CHAIR—Looking at the same footnote, what about the AGS figure there—provision of legal services $4.85 million? Could you comment on that? It is the same footnote.

Mr Lewis—Footnote 31?

ACTING CHAIR—Footnote 33; that is what I said. If someone said 31, it was not me.

Mr Lewis—There certainly was a contract with AGS in relation to a memorandum of understanding. You cannot actually have a contract with the Australian Government Solicitor because we are different arms of the Commonwealth. But we had a memorandum of understanding with the Australian Government Solicitor which was agreed between us. We have found copies of that document which one of us have signed and not the other. I believe there is a document around in our files with both signatures, but we have been unable to extract that—if this is the issue I am thinking of.

But there is no doubt, either on our side or the Australian Government Solicitor's side, that the agreement was negotiated and entered into at the start of the sale, and the parties acted in accordance with it. They did the work according to the schedule of work attached to that agreement, and we paid for that work in accordance with that agreement. They have a copy of it; we have a copy of it. I think what they are talking about is that there is a copy that they have managed to extract from our files. But the one on the Australian Government Solicitor's file only had one of those signatures, not both.

ACTING CHAIR—You cannot find the document that is signed?

Mr Lewis—I have not been able to find the document.

ACTING CHAIR—Is there a comment from Audit?

Mr Boyd—That agrees with the discussions we had with OAS during the sale.

ACTING CHAIR—Is that normal?

Mr Boyd—To have only one party sign the document? No.

Mrs CROSIO—Can I go on into the bid assessment? Again, I take you to page 34 and 35 of the audit report under 'Bid Assessment'. On the top of page 35, 3.5, it says:

Some bidders did not address all the issues raised by the consultants but this was not commented on in the Business Adviser's Stage 3 evaluation reports.

Could you tell my why not?

Mr Droga—The range of issues that we asked the specialist consultants to comment on range from the material to the less material. Those issues that were not commented on were, in our view—and, I believe, the view of other members of the

government sales team who looked at the reports that were done by the specialist consultants—not material issues worth flagging to a minister. Generally, the presentation that was made to the minister and the summary evaluation report that was provided to the ministers was designed to capture the material things relevant to the decision making process. Whilst we freely acknowledged that they did not cover everything, we do not believe that report was intended to cover all issues—the minimus issues in some cases—that may have been raised by a subconsultant to us who is not privy to the wider picture, necessarily.

Mrs CROSIO—You do not believe in the wider picture—that there should be a reassessment of environmental features of each bid, or compliance, without requesting the process?

Mr Droga—There were, of course, assessments provided against environmental issues and so forth against the valuation criteria which picked up, we believe, all the material issues. I think that view was shared by all other members of the government sales team. Any issues that were not covered, in our view, were not material on that front. That probably sums it up.

Mrs CROSIO—These sales have gone through. In the audit report, it shows 50 years with a 49-year period after that, if my memory serves me right. What happens with compliance when there are certain contracts entered into that certain environmental or development applications have got to apply? What happens over a period when they say, 'We've just lost a contract' or 'We haven't got both signatures on a particular contract with the Australian Government Solicitor, even though we know the agreement was there in our minds' and 15 or 20 years down the track something happens. The community says, for example, that they are very concerned about the environmental impact of that particular airport or whatever was going on. How do we have in there that mandatory requirement if you do not obey the law or what we have signed on?

Mr Hutchinson—All the obligations of the bidders are documented exclusively in the formal agreements between the bidders and the Commonwealth by way of sale contract—

Mrs CROSIO—How formal and binding is that formal agreement?

Mr Hutchinson—It is very formally binding. They are contracts enforceable at law. There is a lease enforceable at law. There is an overarching regulatory framework which is formed in law and regulation. All the necessary documents have been properly filed and recorded with the Attorney-General's Department and are lodged with the Department of Transport and Regional Development which have the responsibility for post-sale monitoring and enforcement. So the sale process has, we believe, left the documentation in a form that is accessible for all time. The Department of Transport and Regional Development has the ongoing responsibility under the government's

administration arrangements orders to manage that contractual relationship.

Mrs CROSIO—We are sitting here on 16 June 1998. Can we be as convinced in, say, 2010?

Mr Quinlivan—We are referring to environmental matters principally here. They are subject to a legislative regime under the Airports Act. There is a comprehensive management regime laid out in that act and the regulations under that act—

Mrs CROSIO—So even when the airports change hands, they are still covered by that particular piece of legislation?

Mr Quinlivan—That is right. They are independent.

Mrs CROSIO—Which can be changed at the whim of a government but, nevertheless—

Mr Quinlivan—They can; it is true. But they are independent of the contracts that you have just been discussing with Mike.

ACTING CHAIR—Given some of the issues that have come out of this particular process, you mentioned the question of the Commonwealth Bank sale earlier, I think, but in terms of coming up and doing Telstra, are you confident that the sorts of problems that have come up through this process have not been problems through the Telstra process?

Mr Hutchinson—The Telstra process was a public share offer which has a very different structure in terms of sale conduct. Am I confident that we do not have other problems in the Telstra sale that parallel some of these? Absolutely not. That was an enormous sale. The ANAO is still working through its findings. In the course of that analysis, they have already raised with us some errors, omissions and problems they think they have detected that we either have chased down or are presently chasing down. They are still working on it. Will they come up with a classic ANAO gotcha? Almost certainly. There is always something in there that we did not do right. And we will learn from that. In fact, in a side conversation with Mr McPhee, I did express interest at how quickly the Telstra audit will be finished because I want to make sure that whatever we do in Telstra 2, whenever we do it, we learn from that in turn.

ACTING CHAIR—If ever you do it.

Mr BEDDALL—Ask Pauline.

Mrs CROSIO—Mr Hutchinson, looking at bids again, the auditors found that the decision to conduct a further round of bids involves risk for the Commonwealth since bidders had the opportunity to revise or withdraw their bids. Would you like to comment

on that particular finding?

Mr Hutchinson—Clearly, if we allow people to revise their bids, there is a risk that the bids will be revised to the disadvantage of the Commonwealth. The simple fact was that, when we assessed the bids at the end of that round, there was not a clear-cut winner. It was not reasonably possible for us to say, unambiguously, that this buyer gets this airport and that buyer gets that airport. There was insufficient certainty in some of the bids as to material matters; there was insufficient contractual certainty on some of the sums of money offered; there was insufficient certainty as to quantum; and there was insufficient clarity of the difference between competing bids for some airports. We therefore considered that it was appropriate to give them the opportunity to put their real final bid on the table.

It is not unusual in a trade sale of this sort to find that, no matter how hard you press your bidders and no matter how hard you tell them that they must put their best and final bid on the table, they will put a bid into the tender box on the Friday night, get cold feet over the weekend, and have the investment bank ring your investment bank on Monday to say, 'Of course, there is still some more in the pot'. Whereas we cannot corrupt the bidding process, we cannot ignore the fact that, if signals indicate that the best bids have not yet been put forward, we should give the opportunity for the best bids to be put forward. They are the sorts of commercial considerations within the very strict legal requirements of the bidding process that went through our minds when we decided to advise on a further bidding round.

Mr Lewis—To add to that, there is also what we mean by clean bids. We asked bidders in our phase 1 sales for clear bids as part of our stage 2 bid round and, on the whole, what we got were bids which were quite attractive in many respects but the conditionality, which varied across the bids, was such that it was, as Mike was saying, very difficult for us to make a recommendation to ministers.

The interesting experience from that is in phase 2 where we were dealing with a large number of the same bidders again and I think, even with the new bidders, the message had got out. What we received in relation to our initial bid round were much closer to clean bids which enabled the government to take decisions in relation to the first bids lodged. So I think it was something like 10 bidders which were selected from the initial bid in phase 2.

Mr Hutchinson—One of the risks for the Commonwealth in accepting a conditional bid or a bid which is not certain is that we will select the bidder for a price of $1.5 billion or whatever the number is. That will be announced to the world. The competitors will take their bats and balls and go home and then the winning bidder will say, 'Ah, well, because of these conditions, the $1.5 is now $1.4, $1.3, $1.2.'

By negotiating around the conditionality of their bid in bringing it to finality, they

will chisel away at the margin by which they won the bid, either as to dollars or as to risk allocation between us and the Commonwealth. It was to minimise the scope for that post-bid chiselling that we thought it was important to get very clean bids, almost unconditional bids.

Mr Droga—As Michael was saying, the choice was do you seek to appoint a preferred tenderer where it is not clear that party is in fact the best bid, or do you possibly retain competitive pressures amongst a smaller number of bidders and hope to manage risk through competitive pressure. The decision the government took at the time was that that was the most effective way to manage the risk going forward, given the range of conditionality and pricing that they received with a smaller number of bidders.

In terms of the outcomes that were achieved from that second round of bidding, it clearly shows that decision was the right one. There was an increase in price, which was not the intent but it was there. It was nice—$160 million—approximately five per cent of the total proceeds. As well, basically, we had bids cleaned up. As a result of that the government was able to effectively make a decision on the winning candidate for each of the three airports. The outcome, the process, was a very sound one.

ACTING CHAIR—There is the question of how you treat the whole subordinated debt versus equity question, which I understand was an element of disagreement you mentioned in your opening comments, Mr Hutchinson. Can you just put on the record the position of the Office of Asset Sales on that issue so we can get a response from ANAO? The other thing I will draw your attention to is that I have to get a plane and will have to leave in 15 to 20 minutes. We will have to try and wind things up getting towards that time.

Mr Hutchinson—From where we sit, we were not assessing the gearing ratio of the bidder; we were assessing the financial stability of the bidder. The question between us and the audit office was whether subordinated debt, that is, debt essentially injected by the equity owners for the purpose of financial stability, should be treated the same way as third party debt—money you borrow from the bank where, if you do not pay it back, the bank will come and get you—or whether it should be treated more akin to equity, that is, your funds, some of which you put in by equity and some of which you put in by debt.

The ANAO's position as to accounting classification is absolutely correct. The subordinated debt is debt, and would and should appear on the balance sheets and financial records of the company as debt. For the purpose of assessing financial stability—at what level of cash flow shortfall will this business be in trouble—the equity holders, who also are the debt holders, can have their debt and equity essentially treated as being intermingled, and that is quite customary practice in a corporate finance sense as distinct from an accounting sense. It is a question of what purpose you are classifying the money for.

ACTING CHAIR—Sure. A comment from Audit?

Mr Cronin—We treated the subordinated debt as debt for a number of reasons, three in particular. Under the legislation, the Airports Act, it was treated by the department of transport as debt because to treat it as equity would have contravened the foreign ownership limits on Perth which would have been non-compliant. Secondly, on economic substance, the nature of the transactions involved with the subordinated debt did not have three elements: that is, equity—namely, it is a variable coupon rate; it is subordinated to all other claims, and it is non-perpetual. The third aspect related to how the business adviser treated the debt in terms of their analysis. In terms of their tender evaluation of the cash flows, they actually treated the subordinated debt as debt in terms of their cash flow projections into it.

The reason the ANAO considers its financial strength is quite significant is that it is a criterion for assessing the tenders. It was an airport sales objective. It has implications for the contractual Commonwealth obligations under the tripartite agreement where the Commonwealth may step in and take over an airport should it fail. It also has implications for the development commitments which can pertain to the future development of the airports. The fifth thing really relates to the ongoing reputation or risk of any transaction for the Commonwealth.

We saw these elements as being significantly higher geared than was presented in the evaluations. These differences were very marked. From Melbourne, the material that was provided indicated a debt to equity ratio of some 170 per cent. On our analysis, it would be 1,329 per cent, and it cascaded down to the other airports.

ACTING CHAIR—Any further comment on from that?

Mr Hutchinson—I would like to make a couple of comments, and then ask Mr Droga, as the business adviser who actually undertook the analysis, to comment. This is one where I think the audit office and we are just going to end up disagreeing. Certainly reference to the definition of equity in the Airports Act is entirely irrelevant because that is a definition of equity for a very different purpose; it is the definition of equity in order to ensure that the regulation of ownership arises. That has nothing to do with financial stability; it is to do with the ownership regulation of the airport for foreign ownership purposes—an entirely separate matter, and the crossover is nil.

I come back to the fact that the important matter is whether the business is going to stand up or not. In that sense, the money, the investment that the owner of the business makes in the business, can be treated as intermingled for that purposes.

Mr Droga—When we discussed the methodology behind why we treated one way versus another, I think the key point is the one that Michael has just mentioned. We were looking at financial strength. We were not seeking to make judgments and assessments on

how that might apply under relevant legislation, how it might apply under the tripartite deed and so forth.It was limited simply to the scope of determining financial strength. Determining financial strength is not driven purely by a ratio of debt versus equity; it is looking at the ability of the organisation to sustain itself over time. That was the key focus. It was a means to an end and not an end in itself. I think that was the key thing.Again, we can look at different methodologies, but the end point is that it was simply designed to show up the financial strength of the actual vehicle.

ACTING CHAIR—Okay. To change the focus a bit, the ANAO recommended that you, the Department of Transport and Regional Development, develop a comprehensive framework of procedures to discharge your obligations concerning monitoring and enforcing lessees' compliance with the airport leases. Could you elaborate on your agreement, with qualifications, with this recommendation?

Mr Mrdak—In light of the ANAO's report, we took the view that we were monitoring, as we needed to, all of the relevant provisions of the lease in the light that it had to be done. We recognised the audit report's findings, that we needed a comprehensive framework to do that, and we have now put that in place.

We have now initiated an annual lease review meeting with each of the phase 1 owners—and we have now undertaken one of those; the two others are being scheduled for the next couple of weeks—when we will sit down and go through all of the aspects of the lease, the sale agreement and the legislative provisions to ensure they are all being complied with and are being met to the satisfaction of the parties.

Additionally, we have set up systems within the department to monitor development commitments and compliance with a whole raft of other issues. While we agree with and have implemented the ANAO's findings, we felt we were, at the time of the report, also meeting them as we needed to.

ACTING CHAIR—Okay. Any comment from the ANAO?

Mr Cronin—We are quite happy that, in fact, they have established a framework. It was an area that was deficient, because of the long periods of these leases. We are very glad to see that Transport has taken steps to have a comprehensive framework.

Mrs CROSIO—A couple of things have been brought to my attention, and I would like to take one of them to the Taxation Office's representative. The ANAO report observed that the bid accepted for Melbourne of $1.255 billion was the highest net price offer, after the highest offer price was adjusted for the estimated taxation revenue impacts of infrastructure bonds. Perhaps you could explain to the committee the impact of infrastructure bonds on the tendering process.

Mrs Ashmore-Smith—Yes. I suppose the infrastructure bonds and the tax

implications of those were costed, and advice was given by BZW as to how they should be costed. The cost to revenue was then taken into account in coming to that final figure where the infrastructure bonds were involved.

Mrs CROSIO—Can you just tell me whether the advice was given to the Taxation Office by the business adviser?

Mr Ashmore-Smith—No. The business adviser consulted with the Taxation Office and the DAA on cost to revenue formulation. The DAA and the tax office had input to that but were certainly not decision makers in that process. At that point when they had had input, basically their involvement with the tender process ceased. The tax office was not the adviser on cost to revenue.

Mrs CROSIO—You really have no adequate explanation on the impact on that tendering process of those particular bonds?

Mr Ashmore-Smith—No, I do not. I think that you would probably have to go to somebody who evaluated the tender, or was involved with the advice on the tender process.

Mrs CROSIO—Can I take it one step either forwards or backwards? What are the risks in revenue implications for the Commonwealth on infrastructure bonds?

Mr Ashmore-Smith—There are a number of risks, depending on the sort of scheme, or the way in which the infrastructure bonds are used. The infrastructure bonds were designed to, basically, have very little risk to the Commonwealth, but the way in which they were developed and used over a period of a year or two started to pose quite a risk to the Commonwealth in terms of people getting extra concessions that were not envisaged in the legislation. So there is a risk.

Mrs CROSIO—Could I just ask you there, and I am sorry to keep interrupting: by people, do you mean—

Mr Ashmore-Smith—Applicants, yes—people who are using that particular concession.

Mrs CROSIO—Are you saying that people who are using infrastructure bonds are now getting extra, or that more risk is being placed with the Commonwealth over and above what was expected?

Mr Ashmore-Smith—Yes. More revenue risk was involved for the Commonwealth. I think that this is probably the reason that on 14 February 1997 the scheme was closed down.

Mr Jones—Perhaps I can add in on this. The links with the tendering process itself were not terribly clear to us here, Treasury or ATO, but the process in general was an attempt to come up with the best overall net result to the Commonwealth from the asset sale. Anything which was germane to impacting on the bottom line to the Commonwealth had to be appropriately considered. On the revenue implications of the tenderers and their bids put up, from what we saw there appeared to be only one element of the proposals which had a discrete and unidirectional impact on revenue. That was the infrastructure bond component. They do have a cost of revenue, and that is recognised by the government. When the infrastructure bonds were put in place by the previous government they attempted to identify a cap which they thought was the upper limit to which that degree of public support for private sector infrastructure would be permitted. That, in itself, acknowledges that there is a cost to revenue from such forms of government assistance, and this process here was about trying to identify what the cost to revenue would be so that all the bids could be looked at in a net overall return to the Commonwealth.

The process, as we saw it in Treasury, was that the BZW were in the chair to look at the full gamut of bids before government and they correctly identified that infrastructure bonds were a discrete component that needed to be valued. As the audit office's report indicates, the valuation approach which BZW considered appropriate, and which Treasury supported as the best available methodology at that time, was what was finally used.

The audit report gives a very clear and thorough consideration of the different views that some agencies had on just how those infrastructure bonds needed to be valued. That they needed to be valued was completely agreed by every player in the exercise. The only issue where a difference arose was in just how you value them. The audit report itself states very clearly that the process followed by the Office of Asset Sales was an appropriate one of consulting and then utilising the advice that they were given.

Mrs CROSIO—How does Treasury feel about the infrastructure tax? Do you feel that it has diminished the impact on the high sale price the Commonwealth obtained?

Mr Jones—The object of the exercise, as well as the net return to the Commonwealth from the exercise? If we were to ignore components of costs to the Commonwealth, you are not getting the full information. So it would not matter, in a sense, whether the gross amount of payment was double what was actually realised. If there were an equivalent offsetting cost elsewhere that had not been accurately considered—

Mr Hutchinson—I think it is important to realise that the only bid which included infrastructure bonds was not selected. There is, therefore, no cost to revenue from those infrastructure bonds which have now, whatever the technical term is, lapsed. One of the reasons we had to move into this field was that the Treasurer ended the infrastructure bonds scheme for this sort of investment midway through the tender process, at which

time one bidder, but only one bidder, had secured certificates. It would be fair to say the other bidders cried foul very quietly to us and said, 'Hold on, these guys have got an unfair advantage from the Australian taxpayer.' We, therefore, had to level the playing field by adjusting that bid. We gave the bidder a number of options how it could be done, including surrendering the infrastructure bonds and adjusting that bid for our estimate of the tax revenue that would have been forgone had that bid won. Once we took that amount off the cap, that bid did not win and that issue now is finished and dead. The infrastructure bonds, I believe, are no longer deployable.

ACTING CHAIR—I am conscious of the time. Thank you very much, ladies and gentlemen. Does anyone want to make a very brief final comment? If not, I thank you very much for your attendance. On behalf of the chair, I would like to thank all the witnesses who have given evidence at the public hearing today. I declare this public hearing closed, thank you.

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 4.12 p.m.