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COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE

of

PUBLIC ACCOUNTS

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

CANBERRA

Friday, 25 July 1997

(OFFICIAL HANSARD REPORT)

CANBERRA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

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Mr Somlyay (Chair)

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WITNESSES

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Review of Auditor-General's Reports 1996-97

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Friday, 25 July 1997

Present

Mr Somlyay (Chair)

Mr Beddall

Mr Georgiou

Mr Griffin

The committee met at 1.39 p.m.

Mr Somlyay took the chair.

CHAIR—I declare open today's public hearing, which is the fourth and last in a series of hearings to examine reports by the Auditor-General in the financial year 1996-97. This afternoon we will be taking evidence on two audit reports; namely, Audit Report No. 34 for 1996-97 entitled *Performance audit: Australian Defence Force health services: Department of Defence* and Audit Report No. 36 for 1996-97 entitled *Performance audit: Commonwealth natural resource management and environment programs: Australia's land, water and vegetation resources*. The committee has, to date, received submissions from the Department of Primary Industries and Energy and the National Farmers Federation in relation to report No. 36.

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 be constituted a formal proceeding of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion, I would ask them to direct their comments to me and the committee will decide if it wishes to pursue the matter. It will not be possible for participants to respond to each other directly. Secondly, given the length of the program, statements and comments by witnesses should be kept as brief and succinct as possible.

I also remind you that 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 by Hansard and will attract parliamentary privilege. I refer any members of the press who are present to a committee statement about the broadcasting of proceedings. In particular, I draw the media's attention to the need to report fairly and accurately the proceedings of the committee. Copies of the committee's statement are available from the secretariat staff present at this hearing.

The audit report being considered in this first session is Audit Report No. 34, 1996-97, *Australian Defence Force health services*.

[1.43 p.m.]

BUCKLEY, Brigadier Paul Thomas Richard, Director General, Army Health Services and Director General Operational Health Services, Australian Defence Force, Department of Defence, Campbell Park, CP4-6-24, Canberra, Australian Capital Territory 2600

COLLETT, Mr Geoffrey Alan, Director, Defence Occupational Health and Safety, Department of Defence, Campbell Park, CP4-7-26A, Canberra, Australian Capital Territory 2600

DINHAM, Colonel Peter Malcolm, Acting Director General, Strategic Health Resources and Planning, Department of Defence, Campbell Park, CP4-6-40, Canberra, Australian Capital Territory 2600

DUNN, Major General Peter, Head, Defence Personnel Executive, F-3-69, Russell Offices, Department of Defence, Canberra, Australian Capital Territory 2600

GREENHAM, Group Captain, John Roy, Director of Dental Services, Defence Health Service Executive, Campbell Park, CP4-7-22, Department of Defence, Canberra, Australian Capital Territory 2600

HARREX, Air Commodore Warren Keith, Director General of Individual Health Readiness and Clinical Policy, Department of Defence, Campbell Park, CP4-7-12, Canberra, Australian Capital Territory 2600

MOLLER, Air Vice-Marshal Graeme David, Surgeon General, Australian Defence Force, Department of Defence, Campbell Park, CP4-6-46, Canberra, Australian Capital Territory 2600

NEUMANN, Mr Claude, Assistant Secretary, Prevention, Compensation and Superannuation, Department of Defence, National Capital Centre, NCC-B7-10, 14 Moore Street, Canberra, Australian Capital Territory 2602

RUDZKI, Lieutenant Colonel Stephan James, Commanding Officer, Canberra Area Medical Unit, Defence Health Service Executive, Department of Defence, Campbell Park, CP4-6-42, Canberra, Australian Capital Territory 2600

McPHEE, Mr Ian, Acting Auditor-General, Australian National Audit Office, 19 National Circuit, Barton, Australian Capital Territory 2600

MINCHIN, Mr Tony, Executive Director, Performance Audit Business Unit, Australian National Audit Office, 19 National Circuit, Barton, Australian Capital Territory 2600

ROBINSON, Mr Peter, Audit Manager, Performance Audit Business Unit, Australian National Audit Office, 19 National Circuit, Barton, Australian Capital Territory 2600

CHAIR—I welcome the Acting Auditor-General, representatives from the Australian National Audit Office and representatives from Defence to the first session of today's hearing. We have convened this public hearing to examine the main issues raised in the Auditor-General's report No. 34. The Auditor-General has raised a number of issues relating to the efficiency and effectiveness of the provision of health services to the ADF regular forces. The JCPA will take evidence today on a number of issues related to the provision of health services, including the range of services provided, the integration of health services, dental services, health information systems, injury prevention and provision and control of pharmaceuticals.

The Auditor-General's views have been set out in the report, as have the initial responses of the audited agency. However, the committee would be interested to learn if any action has been taken or is planned to address the issues raised in the report. Does Defence wish to make a brief opening statement to the committee?

Major Gen. Dunn—Mr Chairman, yes. At the time of this ANAO audit there were a number of other reviews into health services and related activities being conducted within the ADF. This report from ANAO has taken cognisance of those reviews and added new perspectives that were not contained in the reviews under way. I would like to say from the outset that in that context this report provided by ANAO has been most useful to the ADF and Defence as a whole.

The recommendations of the report were, in the main, agreed to by Defence and have been reflected in the Defence efficiency review. Many of the measures necessary have been set in train and are occurring at the moment at an extremely fast pace. One of the major recommendations—that is, the formation of a Defence Health Service—has been effected and indeed that is now occurring as a part of the Defence reform program. The number of officers that you see with me here today representing the services is a reflection of that integrated organisation known now as the Defence Health Service.

I would, however, like to emphasise one aspect of the report to members of the committee before we start, and that is the unique nature of the Australian Defence Force. It is this unique nature that does set it apart from other organisations and the type of health support that it requires. The focus of the Defence Health Service is the provision of health care to members of the ADF that maximises operational readiness. Additionally, the Defence Health Service itself must have elements that are capable of deploying into the field or at sea in support of a deployed force. By operational readiness, I mean that we have the need to optimise health and human performance to minimise the effects of disease, injury and wounds to enhance and maintain an operational capability for the ADF. Thank you.

CHAIR—Thank you.

Mr GEORGIOU—How does IVF treatment assist the operational capacities of the force?

Major Gen. Dunn—I will ask the Surgeon General to address that himself.

CHAIR—I am sorry; can we just defer that for a moment. I should have invited the acting Auditor-General also to make a statement.

Mr McPhee—Thank you, Mr Chairman. The ANAO selected the management of ADF Health Services for audit because health services provide a range of capabilities that are essential for the maintenance of the high medical and physical fitness standards demanded of ADF members. In addition, there is a significant cost involved in operating these services, estimated by us to be in the order of $400 million per annum, and we had not previously undertaken an audit in this area.

The primary focus of the audit was on the peacetime support activities of ADF Health Services, as this area consumes the major part of the resources expended. We commenced a preliminary study in May 1996 with audit field work being substantially completed in October 1996. The ANAO provided advice to the Defence efficiency review team, which was established in October 1996. The review's recommendations that medical services need to be pulled together and rationalised was in agreement with our recommendation to centralise command and control of health service resources, as indicated by Major General Dunn. But our report goes into more detail, as you would expect.

Overall, we found the ADF provides high quality health services to its members, with a strong emphasis on preventative health care. Of the issues identified in the audit, we feel that Defence should give priority to the following key areas. Firstly, there is the area of health service administrative structures. These were noted to be complex and fragmented, leading to inefficiencies in the provision of health services. The division of responsibility amongst various service commands has led to different priorities being adopted for the allocation of resources and to the duplication, in some cases, of services. Health services could be more effectively managed by rationalising these structures and placing them under centralised command and control.

The process for determining common standards of health care was seen as a priority area. We observed variations in health policies between the services such as their physical fitness readiness requirements and fitness assessment processes, the maintenance of health records, and a different emphasis between the services on health promotion and preventative medicine.

Thirdly, for priority treatment, we suggest that Defence seek to enhance their

management information on health services. We noted that there was an inadequate management information base and that this has severe implications for managing health services, including the ability to support effective planning, policy development and resource utilisation. We considered that a high priority should be accorded to developing and implementing effective ADF-wide financial and health information systems.

We also highlighted the impact that injuries to ADF members have, including the cost of medical treatment and lost work time, training of replacement personnel and superannuation payments made to members medically discharged. The total cost of these injuries to the Commonwealth is not known but our estimates range from $210 million to $840 million for 1995-96.

In the area of facilities planning and utilisation we noted that ADF health facilities are generally operating at well below full capacity and hence are not being operated in a cost-effective manner. The situation could be markedly improved by the rationalisation of ADF hospitals and medical centres. There are also clear indications that, if the health services are to be effective in providing operational support, ADF staff need more experience in dealing with trauma cases by working in public hospital casualty areas. The costs associated with ADF health care are significant and there is considerable scope for Defence to improve the efficiency and effectiveness of its service delivery.

ADF dental services were noted to have a higher ratio of dental staff to dependent population than the Australian community. For instance, in the ADF we observed a ratio of one is to 136 and in the community generally one is to 970. Also, Defence had a cost per member of about $987, more than eight times the average Australian community cost. The audit also noted that there was scope for rationalising the wide range of therapeutic substances available in the ADF to ensure that only most cost-effective items are being used.

Defence, as Major General Dunn has indicated, supports the overall thrust of the report and agreed to all but one of the recommendations, noting that this recommendation would require a comprehensive study before a response could properly be given. This recommendation, which was recommendation two, referred to an examination of the merits and implications of a member contribution for some aspects of the health care being provided.

Throughout the audit, ADF personnel displayed a positive attitude and a willingness to help the audit team, which we very much appreciated, and Defence has already begun to implement the recommendations from this audit. Mr Chairman, Tony Minchin and Peter Robinson were the senior staff on this particular audit. Thank you.

Mr GEORGIOU—How does the funding of IVF by the ADF assist the operational readiness of the ADF?

Air Vice Marshal Moller—In the short-term sense, it does not improve the operational readiness. In the long-term sense, it may by retaining members in the service. I also indicate that at the time that policy was introduced, it was in concert to the changes to the Medicare entitlements to the normal Australian population. That is why there was a change in policy to allow members in the service to have the same entitlement as ordinary Australian members.

CHAIR—You mentioned Medicare, could you please outline for the committee how Medicare applies to the ADF?

Air Vice Marshal Moller—Medicare in that sense does not apply to the ADF but, I think, as is noted in the report, it has generally been regarded as a standard on which the treatment services provided in the Australian Defence Force are based. It is the baseline which we use as the provision of services.

CHAIR—Just give us the background on how Medicare affects servicemen. I mean, service personnel do not pay the Medicare levy, do they?

Air Vice Marshal Moller—As far as I am aware, some of them do not pay the Medicare levy.

CHAIR—They still have access to Medicare?

Air Vice Marshal Moller—As Australian citizens, yes they do, and I think the report indicates that. We do not encourage the use of Medicare in that to enable us to provide advice on the fitness of members for deployment, we need to have comprehensive health records. If we lose heatlth advice from the system, it may impact on the decisions we make and the assessments of members for operational readiness purposes. In that sense, we discourage the use of Medicare so that we do not lose that information. As you know, Medicare information is private and not readily available to us if members use Medicare.

CHAIR—But if a member of the ADF requires some serious surgery which cannot be done in-house and has to be done privately, what is the procedure for that regarding the delivery of the service? Who carries out the operation? Where is it carried out, in a public or private hospital? How is it paid for? Is it paid through Medicare, or does Defence pay for it?

Air Vice Marshal Moller—Defence pays for the health care of its members when we refer those members for treatment either to public or private hospitals. We pay the full costs and invariably those costs are at the private member rate. There is no charge to Medicare made for the services we provide where we refer patients to either public or private hospitals for their care.

Mr GEORGIOU—I would like to come back to IVF. So the rationale for IVF being paid for by the ADF is that it will make the person receiving the treatment happier so that they may stay in the service longer. That was my understanding of what you said. Is that unfair?

Air Vice Marshal Moller—That may be the case, I cannot confirm that. But in answer to your question, did it make them operationally fit, the answer is no, it does not in the short-term sense.

Mr GEORGIOU—What is the rationale for doing it?

Air Vice Marshal Moller—May I explain that the policy was changed a year or two ago to allow IVF to take place. That change in policy was coincident with Medicare accepting up to six treatment cycles of assisted fertilisation for members of the general public. That policy at that time was changed in line with the change to the Medicare entitlements to members.

Mr GEORGIOU—The ANAO report indicates that there were no additional funds provided consequent to that change in policy and that the lack of supplementary funding posed difficulties for the services. What was the magnitude of the difficulties?

Air Vice Marshal Moller—I cannot give you a specific answer to that in terms of the financial constraints. At the time, if I recall correctly, Air Force Headquarters at Air Command indicated that their belief was that the costs would be of the order of $1 million a year. When that was reanalysed, that was a gross overstatement of the requirement for in-vitro fertilisation costs in that command alone. I do not know the ultimate outcome of what the costs were, but they certainly were not of that order.

Mr GEORGIOU—Air Force estimated $1 million. That was too high or an exaggerated estimate—

Air Vice Marshal Moller—It was.

Mr GEORGIOU—but we do not know what the three service requirement was for IVF. How do we know that the $1 million estimate was high if we do not know the actual expenditure?

Air Vice Marshal Moller—We challenged the command on their assessment of that calculation and how it was assessed. We compared that information with centres providing in-vitro fertilisation for the numbers of people they quoted and came up with a figure. If I recall, and I honestly do not have the figure in front of me, it was about one-third of that figure if all members who wished to take IVF undertook that program at that time.

Mr GEORGIOU—When was this, in 1992 or 1993?

Air Vice Marshal Moller—I cannot remember. It was with the introduction of the policy. I would have to take that on notice and get back to you on that.

Mr GEORGIOU—Basically, the rationale is that it will make people happy. That is the only connection with—

Major Gen. Dunn—There is a key point here and that is the relationship with Medicare and the need for us in the ADF to have comprehensive medical records and to discourage our people from using Medicare services. If there is a change in Medicare that would encourage our people to use that service—if it were not provided under the ADF Defence health system—then we run the risk of more people moving, both from a dissatisfaction perspective and also a provision of service perspective, to Medicare and thereby limiting the amount of detail that we retain. We would be most anxious to have complete medical records available to us, as the Surgeon General has said, so that when we do deploy we know the full medical history of those people.

Mr GEORGIOU—So the nexus between payments by the ADF of medical expenses and operational readiness is, in fact, your need to maintain full medical records?

Major Gen. Dunn—That is certainly a nexus.

Mr GEORGIOU—But it seems to be the critical nexus in the sense that that is your rationale for funding IVF.

Major Gen. Dunn—If it is provided within the Medicare system, yes.

Mr GEORGIOU—So, basically, the system has now become one which merely mirrors Medicare; whatever is on Medicare, you provide as well?

Major Gen. Dunn—No. I come back to the point that the Surgeon General has made, that there is a real issue and another nexus between the retention of persons whose service we value and circumstances that can arise where the non-provision of health care in some form or other—in this case you are exampling IVF—can create dissatisfaction, and we need to monitor that and watch that.

Mr GEORGIOU—It is the twin imperative of maintaining the records and also providing an incentive to keep people satisfied with the service? I am speaking specifically about IVF now. Are there any other reasons?

Air Vice Marshal Moller—To use IVF?

Mr GEORGIOU—For the ADF to pay for IVF.

Mr BEDDALL—Can I just clarify, on the IVF program, whether it is only for serving personnel? It is not for spouses?

Air Vice Marshal Moller—It is only for serving members for whom we are responsible.

Mr GEORGIOU—Are there any other reasons why you fund IVF? Significant as the procedure is, it seems an odd thing for the ADF to fund since its relationship with operational readiness seems very tenuous.

Air Vice Marshal Moller—There are no other reasons that I am aware of.

Mr GEORGIOU—What else does the ADF pay for that is only tenuously related to operational readiness?

Air Vice Marshal Moller—That is a difficult question in so much as we provide that level of care. As I have said, in the past a level of care—as reflected in this report—has been provided which is akin to that provided, generally speaking, in Medicare with the end result being the return of a member to, as near as possible, normal health and ensuring that those people are fit.

Mr GEORGIOU—Yes, that is the generalisation. I am asking: are there other things, like the IVF procedures, that are, to put it lightly, tenuously related to operational effectiveness, that the ADF also funds?

Air Vice Marshal Moller—I cannot think of any immediately at this point.

Mr GEORGIOU—IVF is a one-off?

Air Vice Marshal Moller—IVF is unusual.

CHAIR—Conversely, are there any procedures that are provided under Medicare that you do not provide under ADF health services?

Air Vice Marshal Moller—Yes, there are.

CHAIR—Such as what?

Air Vice Marshal Moller—We do not provide elective cosmetic procedures to members of the defence force. They are generally not provided.

Mr GEORGIOU—For example?

CHAIR—Face lifts?

Air Vice Marshal Moller—Any cosmetic surgery on demand would not normally be accepted unless there was an impact of that condition on the member's general physical or psychological wellbeing. That would have to be very carefully assessed and there is clear policy to that effect.

Mr GEORGIOU—Regarding the estimated $400 million spent on Defence health provision, the Audit Office says that they think that that is a conservative estimate. The navy has provided an estimate which is significantly higher—by 43 per cent—than the estimates provided by the ANAO. Are there any updated estimates for army or air force which can be matched against the ANAO's estimate?

Air Vice Marshal Moller—At the moment, only navy is undertaking the activity based management study as was reported to the ANAO. To the best of my knowledge, neither the air force nor the army is undertaking such studies presently.

Mr GEORGIOU—So the number that comes out—do you have any problems with the estimate put up by ANAO of your expenditures?

Air Vice Marshal Moller—No. I accept that report. We have discussed that at length during the progress of that report. Some of the methodological approach surprised us because it was not areas that we would normally consider as costs, but we acknowledge that within our response—that this is the methodology that is used to calculate the cost—in terms of their methodology.

Mr GEORGIOU—Did it surprise you that the numbers were as high as $400 million-plus?

Air Vice Marshal Moller—Yes, it did.

Mr GEORGIOU—What was your intuitive feeling before somebody actually did the numbers for what the services would have cost?

Air Vice Marshal Moller—Our focus generally has been on the moneys which we have expended and it is referred to generally speaking as account group 39. That is the moneys we pay for externally provided services. Most health professionals are conscious of that expenditure. We are mindful of the fact that the pharmaceutical and other supplies that come to us do cost money but the salary costs and the opportunity costs of capital in the methodology of calculations surprised us given that, as an operational force, we are required to have a health service ready to deploy on operations. That inclusion, in fact, surprised me because our focus is, generally speaking, on the account group 39 which is what we are always directed to in all budgetary considerations.

Mr GEORGIOU—That is a tiny proportion of what you actually spend.

Air Vice Marshal Moller—Indeed. The salary costs are the largest costs for health care expenditure.

Mr GEORGIOU—If you had insight into how much the effective expenditure was, would it make you do anything differently or did the amount you spent have nothing to do with what you actually did?

Air Vice Marshal Moller—It has made us do things differently. I think that is the positive. It is not 'would'; it is 'has'. The formation of the Defence Health Service will lead to changes and, in addition, our involvement with the commercial support program to realise savings is progressing. That came at about the same time as the Defence Efficiency Review and the audit were done. Both of these issues came to light and we are progressing down the line of commercial support.

Mr GEORGIOU—Can I take you to the work force ratios for dental staff where the office issued health policy directive 407 which allows one dental officer for 800 service members, one full-time clinical hygienist for 1,300 patients and one dental technician for 1,000 members. The actual personnel seems to me to be hugely in excess of the policy. I am not trying to confuse you. It is in paragraph 8.9 on page 73 of the audit report. There seems to be a very substantial over-staffing of dental services. What relationship does the policy have to reality? Let me ask that differently. On what was the policy based?

Major Gen. Dunn—I invite Group Captain John Greenham to answer that as he represents that part of the organisation.

Group Capt. Greenham—The actual ratios have been set empirically on what we have found we needed to do the job. The disparities between the ratios and the actual ratios that currently exist as established by the ANAO are difficult to understand. My best guess would be that, as the services are downsized, the dental personnel have not downsized at the same rate.

Mr GEORGIOU—So the ratios were established on the basis of empirical observation about what was determined was the appropriate relationship between dentists and dental technicians, et cetera, and numbers of staff. You seem to have huge excesses—not to put it too lightly. When the policy was set, what intermediate steps were taken to implement it?

Group Capt. Greenham—The policy was set and promulgated, and the people with the functional responsibility for running their own dental areas were asked to analyse their individual circumstances and initiate action to correct the ratios where they were inappropriate.

Mr GEORGIOU—Were they at all monitored?

Group Capt. Greenham—They have been monitored to a degree, and there have been some attempts to push that along—with some success in as much as a number of potential reductions have already been identified.

Mr GEORGIOU—When was the policy directive put into place?

Group Capt. Greenham—I am not sure when that was put out. It would have been a couple of years ago at least.

Major Gen. Dunn—The formation of a Defence Health Service has been an absolute cultural change. As I noted in my introductory comments, our taking the information from the audit report and applying that to the defence efficiency review has led us to a point where we have established a completely new organisation which is allowing us for the first time to look across all three services and now, as we put this in place, drive those sorts of changes and efficiencies in the whole organisation. I would just like to emphasise that prior to the establishment of the Defence Health Service—this is the point that the audit report makes—it was extremely difficult to take each of the individual cultures and look at each of the individual policies and see it flow through. We have got a quite different environment now in which we are operating, and that came into effect on 1 July.

Mr GEORGIOU—I appreciate your point about cultural change. The difficulty is that so often when we are examining these reports they seem to have been overtaken by cultural change that was put in place just a few months before the report was received. This has taken place across a number of the audit reports. So I do take your point, but I am interested in why a policy was not implemented and it has resulted in quite substantial overruns. What was indicative was that, despite the cultural change, this actually came as a surprise to you—that things were so far out of whack.

Group Capt. Greenham—I was surprised that the changes had not taken place as quickly as possible; that is correct.

Mr GEORGIOU—When do you estimate that the policy will be implemented and when the ratios will be 1:800 for dentists rather than 1:537? In the case of support staff, I did not do the numbers but it is around 1:1,000 and you have 1:182. They are substantial differentials.

Group Capt. Greenham—They are substantial differentials. The ANAO recommended that a review be undertaken. Since the new organisation has started, I would imagine within a time frame of year one we will have that review completed. One of the terms of reference will clearly be to monitor all the staffing against those ratios.

Mr GEORGIOU—The ANAO gets a bit wimpy at times. Maybe they should have just said that you should have actually applied your own policy guidelines rather than

review them since you had already established what was necessary and since the reality totally diverged from that.

Air Vice Marshal Moller—In the calculation, while it will not necessarily alter the ratios dramatically, the ANAO have taken all officers—if you are talking about dentists—who are employed within the Australian Defence Force and applied those as if each of them were providing treatment. That is true across the board. I think it is fair to say that we have dental officers who are providing services other than treatment to patients, and they are vital services in terms of policy at the strategic level and functions outside dentistry—their parent qualification is dentistry—such as providing financial advice to commands and doing operational planning. They have been included in the methodology approach, as far as I am aware, in calculating the raw ratios of numbers to patient population. I think that is a point that would need to be taken into consideration.

It is similarly the case in comparing these numbers purely to just treatment elements. As has been said, the health services are not just a treatment service. We have responsibilities in the provision of training, which I know has been discounted within the report. We have responsibilities apart from treatment in the provision of operational readiness for the force.

Mr Robinson—We did take account of the training force. We excluded those from the members who are listed in that ratio, but the Surgeon General is correct in so far as there are a range of duties that dentists do beyond clinical work.

Mr GEORGIOU—I refer you to paragraph A12 on page 74 which indicates the shortfalls between the targets for examinations et cetera and actual performance. Did the target—the ratio of 1:800—take these other activities into account? Did it actually expect the army, for instance, to meet its objectives in terms of the numbers to be examined? Your army is short of its targets. Has that got something to do with people doing other work?

Group Capt. Greenham—The situation with the army was that the army was undermanned as far as clinicians are concerned. The targets that were set were not being met at that time for two reasons: one related to work practices in as much as some of the dental staff were spending insufficient time on clinical duties and what was assessed as a disproportionately greater time on military duties.

Mr GEORGIOU—Why do you say that they were undermanned? Table four on page 73 indicates that the real situation was better than the ratio; that is, that there were more dentists than the ratio required. From what perspective can it be said that they were undermanned?

Air Vice Marshal Moller—The shortfall in dental officers within the army as of 6 May this year is a shortfall of 18 dentists at the captain level, as opposed to a requirement

for 31. There is a 58 per cent shortfall as of 6 May this year in the level of professional staff that would in the main be providing those services.

Mr GEORGIOU—You will have to pardon me. I do not understand what relevance the particular rank of a dentist is. The table shows that there was one dentist to 706 people. Support staff was one support staff to 162.

Air Vice Marshal Moller—My understanding is the numbers used to calculate that were the establishment numbers. In other words, the authorised numbers of staff who were to be provided to provide that service rather than those who are actually physically providing it.

Mr GEORGIOU—Okay, so they are actually notional positions rather than actual people filling them. Is that correct? If that is correct it seems to be a deficiency in the analysis.

Mr Robinson—My memory was that this was actual people as opposed to positions but I can—

Mr GEORGIOU—Can we check? It seems to be important.

Group Capt. Greenham—It was actual people.

Mr GEORGIOU—It was people? The table shows overmanning for dentists in the army and very substantial overmanning for support staff. We have got a situation in which the army is simultaneously falling short of its goals in terms of examinations and in terms of evaluations of dental fitness—how do we square all of this off?

Group Capt. Greenham—There are two ways of looking at this. One way of looking at it is that a fix was required and that was put in. When one puts in a fix, one highlights the negative aspect of it and therefore that urgency with which the fix has to be attended to. Looking at the other side of the equation, the fitness levels at the time were 62 per cent fit to the highest possible standard. There were 25 per cent fit to the next highest standard which is quite a high standard. That is the standard at which a member can be deployed for up to 12 months with the expectation they will not become a dental casualty. If you add those two together—62 and 25—87 per cent of the force are deployably fit. The situation is not by any stretch of the imagination a grim situation. It is just that the army sets very high standards and it was not able to meet them because of undermanning.

Mr GEORGIOU—Given the point you just made about the very high standards that the army has and, essentially, that they amount to putting someone into the field with low expectations of having problems for 12 months, why is there a need for such large numbers of Defence Force staff involved in dentistry? You have just made the point that

this is a long-term task. It is not responding to trauma; you are trying to get people's teeth up so that they can chomp away in Somalia or wherever. But it is not an operational task in that sense, it is the long-term getting up to speed of people's teeth. Why do we have so many people for an activity that can be done outside the ambit of the military forces? These are things that get done on a routine basis, where you make appointments to get people's teeth up to speed. Why do we have so many, in any terms, but why do we have so many even against your own standards?

Major Gen. Dunn—The notion that this is a routine procedure and something that we do in an administrative sense is not correct. Dental casualties occur in the field. Combat casualties are frequently related to dental problems. They also occur in routine activities, in the army's case in particular with the operation of armoured vehicles and the like. There is a requirement—and an important requirement—to meet the deployable capability of the dentists. They go into the field to handle what can be very serious cases as close as possible to the point of injury. They are not just providing that treatment back in a barracks environment. Similarly, we have situations at sea as well.

Mr GEORGIOU—The audit report says precisely on that point that Defence noted that any comparisons between military and civilian dentistry should take into account the fact that the civilian dental services are largely reactive whereas the ADF dental services are more focused on preventive dental care. Also, the note on page 72 says:

The bulk of ADF dental services are provided out of permanent clinics and the majority of dental personnel generally do not deploy.

Most ships do not have dentists. The difficulty you are having, as I understand it, is in getting medical personnel to deploy in high readiness units.

There are about four points there: one, you say yourself that it is basically preventive; two, most of your work is conducted out of bases rather than on deployment; three, there is not much deployment going on; and, four, in those areas where you have a high priority need for deploying medical resources—not just dentists but others, but we will come back to that later—you are having real problems getting the personnel out there.

Major Gen. Dunn—That is right. This is the point that I raised in my opening statement, that within the ADF we are required to be ready for operations. The fact that they are not deploying at a particular time is often because the length of the exercise or the nature of the exercise do not require that. But I do return to the basic point—one of the comments that we made in response to the overall report—that we have a requirement to prepare for operations. If we go on operations for lengthy periods of time, or overseas, then we do have a requirement to deploy dentists and other medical staff as well.

Mr GEORGIOU—No argument. My problem is with quantum, in the first

instance. My second problem is that, even against your own standards—and those standards must have some relationship to your deployment requirements—you are substantially overmanned in dentistry. I cannot put my finger on the section where it refers to ADF's problems in staffing high readiness forces. It is there somewhere; I will pick it up later on and come back to you.

So there is a whole cluster of issues here, ranging from shortfalls against your own standards, the more general issue about why there are so many needed and the third issue—once again, I do appreciate the need for deployment capacity—that most of your work is not done on site, it is done out of ordinary clinics. Why is there a need for such a stacking up of military personnel for something that, in many respects—gunshot wounds to the mouth, as somebody put it before, excepted—could be done in routine civilian clinics? Do we have higher standards?

Major Gen. Dunn—A lot of this work cannot be done in routine civilian clinics because of the place of occurrence.

Mr GEORGIOU—I missed the last bit. Why can't they be done in routine clinics?

Major Gen. Dunn—If we are deployed overseas or if we are deployed in remote areas, those dental facilities are simply not available unless we take them with us.

Mr GEORGIOU—But most of your work is actually done—

Major Gen. Dunn—At the moment—at peace time—yes.

Group Capt. Greenham—The key point about the military dental service is that it exists to make sure that it is the military personnel who are able to be deployed at short notice for long periods and in circumstances not conducive to good oral hygiene with only a slight risk of becoming a dental casualty.

We have annual checks and a strong preventive emphasis. As the services shrink, as they have been over the last several years, and as they increasingly specialise militarily, the availability of all deployed personnel becomes more critical and any capacity to accommodate dental casualties even less. The ratios that we use are comparable to those of other Western nations in terms of work force ratios.

Mr GEORGIOU—The armed forces of other countries?

Group Capt. Greenham—Australian dental ratios are similar to those of other nations.

Mr GEORGIOU—The armed forces rather than civilian?

Group Capt. Greenham—That is correct.

CHAIR—I would like to hear more about the progress towards a centralised Defence Health Service. Is there is any reason why the navy is not represented?

Major Gen. Dunn—Only because the commodore who would have been here is on leave at the moment. To emphasise the joint nature of the organisation now, he is being represented by an army officer, Colonel Dinham. That does in fact bring out the nature of the organisation that we have set up under this new Defence Health Service.

In terms of progress, I have made the point—you can see quite clearly how this interacts with the Defence Efficiency Review which has flowed into what is known as the defence reform program—that these issues have been tackled in the first instance by the formation of the Defence Health Service. There is an additional aspect to this and that is that the Defence Health Service, being such a key part of our personnel organisation, has been moved into the organisation that I am the program manager for—that is, the Defence Personnel Executive. We are now bringing together all of these components of personnel readiness aspects and the like.

The structure of the Defence Health Service is already, right at this moment, a joint structure which is a fundamental plank of this report and, as such, that allows us now to get visibility across all of the three service areas and both the combat and the rear areas as well.

I will invite the Surgeon General to run through the detailed structure with you. It is being designed to allow us not only to provide better health care but also to focus in on efficiency, which was the thrust of the Defence Efficiency Review. Both aims we intend to achieve through this structure. It is not something that we are reviewing. We have done this and we have a series of targets to complete between now and three years. We are in year one of a three-year program—and that is under way. If I may, I will invite the Surgeon General, Air Vice Marshal Moller, to comment further on the detailed structure.

Air Vice Marshal Moller—The detailed structure in the first year of this new organisation, which we are transitioning to a leaner organisation in July next year, has been set up with a number of branches. A Director-General of Reserves has been included to accommodate the reserve elements of the health services, which are a vital part of our operational deployment requirements.

Fundamentally, we have a branch that deals with deployed force health support, as represented by Brigadier Buckley. We have the Individual Health Readiness—with a focus there on operational readiness—and Clinical Policy Branch, which is headed by Air Commodore Harrex. The Strategic Health Resource and Planning Branch—in view of the increased responsibilities we will have in terms of both finance and planning as opposed to our previous situation as a purely policy organisation—will be headed by Commodore

Flynn. In addition, we are hopeful that we can either create or work with a human systems performance directorate to stress the focus of human systems and human performance in ADF capability requirements.

Those are the new branches within the organisation. As I have said, the structure has been set up with directors-general controlling those branches, and new directorates have formed within each of those branches to focus on the direction that we were given by the DRP—and that is the operational future of the force.

That is a broad brush outline of the three branches. We are transitioning to an organisation—which will commence in July next year—which will be leaner. At the same time, we have taken staff from a number of commands to form one single, integrated, national health support agency. In so doing, we will bring professional services into that support agency, as well as health support and resource management, which is a key focus that has been addressed in the ANAO report. We have taken heed of those recommendations to focus heavily on resource management and professional services. We will also add environmental health—our preventive program which is, again, highlighted in the ANAO report—into the national health support agency.

Those two organisations, both at the strategic level, working for Major General Dunn, and at the level of the national health support agency—which will be in concert with the corporate support program, working alongside that organisation—will direct activities in the regions, as we are divided across Australia. They will incorporate both active duty service personnel and the reserves at all levels. So it is not a question of whether we will do it—we have done it, and, from 1 July this year, that is progressively being established and staffed accordingly.

CHAIR—The need to achieve the efficiencies you are talking about—and the need to know the full costs associated with them—is pretty well essential. Defence gets a fair lump of the budget, and I do not think anyone begrudges that, but we do like to think that the public dollar is being spent efficiently. So what steps do you think need to be taken so that you can identify the full costs of aspects of health care—which you could not do, according to the Auditor-General's report?

Air Vice Marshal Moller—We plan to identify that, as I have said, by having staff who are responsible for financial resource management within the organisation. As was said before—I think by General Dunn—in the past, that was in the individual services. My office had no responsibility. Although the criticism made in the report was that we wrote policy without, in effect, regard to the costs, we had no responsibilities for the money. They were single service controlled. In the future, Defence Health Service will be responsible for the moneys and will be held to the required efficiencies that have to be met in accordance with the Defence reform program. To that end, as I have said before, we are embracing commercial support, and we have a number of initiatives in train to address commercial support of the provision of support that is not necessary in terms of

pure operational matters.

Mr BEDDALL—A question arose earlier about the amount of injury that is caused during what would be called basic training and the fact that a lot of that leads to invalidity of people. What are the forces doing to ensure that at induction there is a higher level of fitness required before people become part of the ADF? Has that brought about changes to attitudes so that—perhaps in basic training—people are gradually brought up to a fitness level rather than expected to have a high level of fitness as recruits?

Major Gen. Dunn—The level of awareness is now very high throughout the three services. This has become a very visible factor and a very visible cost. But I will ask Lieutenant Rudzki to comment on that further, because he has more detailed knowledge of that issue.

Lt Col. Rudzki—We are making, I believe, great strides in this area. I have been involved in a project called Project Dunlop, which has looked at a multi-disciplinary approach to dealing with the problem of what we have termed as recruit wastage. That has led to a complete rewrite of some of the physical training components of the recruit training course.

We have also now introduced a combined reserve recruit training program which will come into effect later this year. As a result of that, we have had another rethink about how we do business. The upshot of that is that, as you rightly point out, in the past we have had a situation of a fixed end point of physical fitness but a variable start point. The research would suggest that people progress to that fixed end point at different rates and it is that increased rate of progression that may lead to injury. One of the areas is to actually set a fixed start point so that we can have a sensible rate of progression to our fixed end point.

To that end, we have introduced the 20-metre shuttle run test, which we have trialled at various recruit centres. The preliminary studies suggest that failure to achieve a certain standard on that entry test has a very high predictive value of injury and subsequent discharge during recruit training. So the staff at the first recruit training battalion have pushed very strongly to have this introduced as a mandatory entry standard.

We are also looking at mandatory strength standards, mandatory flexibility standards and mandatory agility standards, with the aim that, if we know what we are getting in the front door, we can safely progress them through to an end point and then define the end points from both the end of recruit training and the end of our initial employment training, and then continue that through their time in the Regular Army. I have to emphasise that we are at the early stages, but I am optimistic that we can achieve great gains.

Brig. Buckley—I would like to add further to what Lieutenant Colonel Rudzki

said. Army has already reviewed its physical training test and reduced one of the main parameters of that test, which is basically the run. It has reduced the run because a lot of the injuries we were getting were lower limb injuries. So the army has already changed that test.

CHAIR—That is not a new thing, is it? This must have been occurring for quite a long time. Why is it that it has just been recognised? If you have that dropout rate through injuries—

Lt Col. Rudzki—Information is power, and I do not think we had the information for a long time. You cannot make the rational decisions unless you have the evidence in front of you, and we have had the evidence for only a short time.

Mr GEORGIOU—Earlier on we were advised that only the navy had in place the activity based management corporate model and that neither the army nor the air force had it in place. When will they move?

Major Gen. Dunn—The whole question of activity based management across the ADF, indeed across the whole Defence organisation, is being addressed now as part of the Defence reform program. I cannot give you a date as to when it will be in place, but it is quite clear that there needs to be a uniform system. ABM does have some downsides as well, although, at this stage in the context of this discussion, it is clearly producing very good information. That is being addressed corporately across the whole of the Defence organisation and a plan is being put in place to revise the financial management processes within Defence. That is a specific recommendation of the Defence efficiency review followed up in the Defence reform program and a task force is being formed to look at that urgently.

Mr GEORGIOU—But, despite this, navy is implementing it.

Major Gen. Dunn—Yes.

Mr GEORGIOU—Does that mean that it is ahead of time or just being—

Major Gen. Dunn—I would say that it is ahead of time. It took a hard decision to get certain aspects of its financial management under control and it is producing good results. There is no doubt about it: the other services are benchmarking across it. But now we are putting that in the whole Defence context of the tri-service approach.

Mr GEORGIOU—What does class 2 dental standard mean?

Group Capt. Greenham—A class 2 dental standard is a standard such that the member could be deployed with an expectation they would not become a dental casualty for a period of up to 12 months.

Mr GEORGIOU—And class 1?

Group Capt. Greenham—Class 1 is essentially fully dentally fit in all respects and with good oral hygiene control.

Mr GEORGIOU—When was the army directive that reserve personnel be brought up to class 2 dental standard at Commonwealth expense put into place? Who mandated it?

Group Capt. Greenham—I cannot answer that one. That is a matter within the army hierarchy. My recollection is something of the order of one year ago or 1½ years ago.

Major Gen. Dunn—That is part of the army's individual readiness notice program. All services are moving to a similar program. We are looking, right at this moment, at the costs of introducing those increased standards, particularly the move to employ reserve forces in far greater numbers and in far greater penetration of the whole organisation. This is all to do with making our reserve part-time component part of the total force. That very issue is on my desk at the moment.

Mr GEORGIOU—It happened within the last 18 months as part of a general upgrading so that you could be happy that somebody going into the field would have good healthy teeth for 12 months—accidents excepted. The cost was about $10 million and that was done at the Commonwealth's expense.

Major Gen. Dunn—No. That was out of Defence appropriations; that was not additional.

Mr GEORGIOU—No. I assimilate the Commonwealth's expense with what Defence spends—we are not at cross-purposes. The Auditor-General's report recommendation No. 2 was:

. . . Defence assess the merits of and possible implications of a member contribution for any health services additional to those required for the maintenance of individual readiness or those that are outside the ADF's duty of care to its employees.

The Defence response was a classic:

This is substantial departmental policy which will require a comprehensive study by the Department before a response can be given.

Does that mean, 'We cannot tell you whether or not we are willing to assess the merits of something until we have a comprehensive study'?

Major Gen. Dunn—In the Defence Force we offer what amounts to free health care. That is seen as a particularly important aspect of service in the defence forces. If we

were to rapidly move to change that, then we could find ourselves with a very difficult attraction and retention problem. Given the emphasis we are placing on both attraction and retention at the moment, we would seek to have a very close look at this, and that is the intent of our response. It does have a potentially deep-seated impact on the way we operate. It is not a fault.

Mr BEDDALL—Anyone who decided to leave the Defence Force would have to pay the Medicare levy so there is not an incentive to leave the Defence Force to get it cheaper. Even if you brought in a system that was equivalent to the Medicare levy for a much higher standard of service, there would seem to be an inequality about payment.

Major Gen. Dunn—I come back to the first point. The situation at the moment is not uncommon within defence forces. Because of the nature of the service we ask people to undertake, both in training and in operations, we offer free care. It is one of those fundamentals and is an important issue for people coming into the recruiting stations or the officer candidate schools. We do need to look at the downstream impacts of such a decision—hence our response.

Mr GEORGIOU—I appreciate that. There seems to be a world of difference between saying that something is an incentive for membership of a particular organisation, which is the base on which you are putting it at the moment, and saying that something is an imperative for effective operation of an individual within that organisation. You keep on slipping between the two. I appreciate both points but whenever it is questioned you move to operational imperatives and whenever they fall to the ground you move to incentives for participation in the forces.

That is what I think this recommendation is trying to get at, that there is manifestly a distinction between what is necessary for operational effectiveness and incentives at various levels for membership of the ADF. The response of saying, 'We will have to think about whether or not we think it has any merits' is a bit puzzling. That was more a statement than a question.

CHAIR—The Audit Office has recommended that Defence assess the merits. The response does not quite say whether you are prepared to assess those merits. That is what Mr Georgiou is saying. Am I right? Are the merits of the Auditor-General's recommendation being assessed at all by Defence?

Major Gen. Dunn—We are prepared to look at that issue. We have indeed commenced that process by virtue of some of the documentation that is sitting on my desk at the moment. The answer is yes, we are prepared to look at it but we do wish to look at it in some detail before we move forward.

CHAIR—Then, in fact, you have responded to recommendations.

Major Gen. Dunn—Yes.

Mr GEORGIOU—In response to a number of questions the point has been made about the necessity to be able to deploy appropriate medical personnel with teams—we get told about overseas, et cetera. How many specialists do you have as members of the permanent ADF?

Air Vice Marshal Moller—Very few. There are certainly surgeons in the army. There are no anaesthetists in the army. The navy has one orthopaedic surgeon that I am aware of and there is one surgeon under training in the air force. I believe he has not finished his qualifications. The majority of our specialist support, as I said before, comes from the reserve. The reserve is a vital part of our ability to deploy and work in operational settings, as was evidenced in Rwanda, for example.

CHAIR—Where do you get anaesthetists when your surgeons are operating?

Air Vice Marshal Moller—From the reserve. We have anaesthetists, surgeons and orthopaedic surgeons on the reserve. Particularly in the army, some members are at a higher state of readiness—I might ask Brigadier Buckley to comment on that—than in the other forces.

CHAIR—If you are going to undertake a surgical procedure within the ADF by an army surgeon, you get an anaesthetist in from outside?

Brig. Buckley—For peacetime care on mainland Australia we use either a reservist or a contracted or sessional doctor—a civilian. For operational deployment, and that is any deployment from a surgical team right through to a hospital such as we deployed to Rwanda, we utilise the reservists. For example, in Operation Tamar—the Rwandan experience—we deployed teams of surgeons, orthopaedic surgeons, anaesthetists, intensivists and tropical medicine specialists from the reservists. By and large the great majority of those people were reservists. We deployed them for one year at six-weekly rotations. We rely, and have done so for many years, very much on close integration with the reserves. We utilise virtually all our clinical specialists for deployments from reservists. For peace time care we have a contract or sessional set-up with whatever the state or regional arrangement is.

Mr GEORGIOU—So the critical demand for medical manpower on a permanent basis is for the availability to deploy, except that you do not have any specialists to deploy and you have to bring in reservists. That raises once again the question of why there are so many full-time permanent medical personnel when in deployment situations you are dependent totally on the reserves for specialists, except for two or three full-time surgeons across three services?

Brig. Buckley—We are talking about the clinical specialists, that is the surgeons,

orthopaedic specialists, anaesthetists and intensivists, but the defence utilises medical officers for more than simply the specialist surgery that occurs. As we all know, disease and non-battle injury cause more actual casualties than do war surgery and trauma.

So we utilise the medical officer for a whole range of things, from primary care through to the screening that we require in terms of classifying people for overseas, tropical medicine, sports medicine, venereology, health planning and health intelligence—all those factors. We utilise all our general duty medical officers as military physicians and they are not necessarily the clinical specialists such as the surgeons, anaesthetists and orthopaedic surgeons.

Mr GEORGIOU—I will try this in a different way. Your capacity to deploy specialists overseas lies entirely outside the permanent full-time ADF. Is that so?

Brig. Buckley—Yes.

Mr GEORGIOU—And that has manifestly worked—Rwanda was an example of where that has worked. I come back to my question: if that is the case and you can source all your specialist medical expertise entirely outside the full-time ADF, why do you need so many dentists as part of the full time ADF and why do you need so many doctors as part of the full-time ADF when in a critical component of your deployability—surgery—you have got to go to the Reserve?

Brig. Buckley—It is a critical part. It is one factor.

Mr GEORGIOU—They are all interdependent.

Brig. Buckley—Yes.

Mr GEORGIOU—They are all interdependent; they are all replaceable.

Brig. Buckley—The health treatment is basically based on an echelon system of care. We have four or five levels of care that range from basic medical care from one regimental medical officer, who is a doctor and who can provide certain capabilities. The range extends through the continuum from that level one care right through to specialised surgery. That is simply one element of the treatment we provide.

When we deploy troops overseas, depending on the scenario and depending on the actual likelihood of injuries, we may in fact not send a surgical team. We may send medical assistants. We may send nurses; we may send health trainers.

Mr GEORGIOU—What did you send in a significant way on your last two deployments overseas?

Brig. Buckley—In a significant way? We sent basically levels one, two and three so we provided treatment from primary care through to surgery, including evacuation.

Mr GEORGIOU—So in the last two instances, where you have deployed significant forces overseas, you have actually sent surgeons?

Brig. Buckley—Yes.

Mr GEORGIOU—Where does that leave your point?

Brig. Buckley—What I am saying is simply that the specialist surgical care is one part of health service support, and we utilise the Reserve because it is part of the defence force and it has been a marriage that has worked very well. It is only one part of the total care. A surgeon cannot operate from the point of wounding right through to the hospital. He can only operate in a hospital; he needs someone else in the echelons above him or before him to prepare that patient. When the patient gets wounded, he requires primary care—that is not given by the surgeon. When he is then evacuated for further resuscitation, that is not provided by a surgeon. It is only when he gets to a hospital, which is simply one part of our treatment system, that you require a surgeon, an anaesthetist and so on—all with the surgical team.

Mr GEORGIOU—The fact is that there is a huge opportunity cost attached to having that many full-time medical personnel attached to the ADF. What I am trying to probe around is the question of how far you could reduce that as you have done in the case of specialists in which you effectively have zero specialists and you can nonetheless deploy them overseas.

I think you can see that I am having a hard time in having a meeting of the minds on this one. Basically, you are overstaffed on your own criteria in terms of dentists. You have got lots of doctors, lots of whom will not be deployed into areas of high need. So I am saying: why do you need this quantity of medical personnel when your experience is that you can actually supply important components of medical care through the Reserves?

Major Gen. Dunn—This is an area that we are looking at critically right at this moment. I cannot predict the outcome, but I can say that the Reserves, for almost as long as the defence force in this country has existed and the same elsewhere overseas, have been an outstanding source of that asset. The point we would make, and I think it is fairly obvious, is that, for the primary level of health care that we are talking about, this occurs frequently. It is required to be dealt with and the doctors—the RMOs and the like—in the units are able to dispense that sort of treatment and retain their skills and qualifications.

Mr GEORGIOU—At substantial cost?

Major Gen. Dunn—Yes, but they can retain their skills and qualifications, which

is the point that I am coming to. In the case of the specialists, we have another factor to add to this: their ability to maintain their skills. You run into a conundrum then in that if you do bring them in full-time, while you would be able to use them, you would not be able to use them sufficiently to maintain those skills. So there is a balance. This is all to do with efficiency, and we take that point. It is certainly one of the areas that we are looking at as of the DER and, indeed, before that to get those ratios.

CHAIR—Mr McPhee, does the Audit Office want to make any concluding statement?

Mr McPhee—No, Mr Chairman.

CHAIR—Does the ADF want to conclude on anything?

Major Gen. Dunn—No, Mr Chairman.

CHAIR—I think we have asked all the questions we want to. I thank you for coming along today to our round table hearing.

[3.08 p.m.]

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CHAIR—We will commence the final session of today's public hearing. A couple of members will come back during it. I must ask participants to strictly observe a number of procedural rules. First, only members of the committee can put questions to witnesses if this hearing is to constitute a formal proceeding of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion, I would ask them to direct their comments to me and the committee will decide whether it wishes to pursue the matter further. It will not be possible for participants to directly respond to each other. Secondly, witnesses should, to assist Hansard, identify themselves whenever they wish to make a comment. Thirdly, given the length of the program, statements and comments by witnesses should be kept as brief and succinct as possible.

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

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

The report we are considering is Audit Report No. 36—*Commonwealth natural resource management and environment programs*.

The main purpose of this session is to examine the key issues identified in report No. 36 on natural resource management and environment programs and whether any action has been taken or is planned to be taken to address issues raised in the report. The JCPA will take evidence today on a number of issues relating to the efficiency and effectiveness of the administrative processes established for land, water and vegetation programs. The issues the committee will pursue include program objectives and performance information, risk management, needs assessment and project approval and elements of financial accountability.

In addition, the JCPA would like to hear how agencies will address the issues raised in the report in terms of the Natural Heritage Trust programs. With that background, I would like to provide the opportunity for a brief opening statement from the

agencies. Mr Lee, would you like to start?

Mr Lee—Thank you for the opportunity to address the committee. The department welcomes the Australian National Audit Office report into the Commonwealth's natural resource and environment programs, particularly with respect to the national landcare program. It is very timely in our view that we have this platform to move forward with arrangements for the Natural Heritage Trust.

The department accepts all of audit's recommendations and will pursue them. In saying that, I must say that we do have some reservations about some of the findings in the audit. Mr Chairman, I believe you have a submission from us which discusses those various points, which the committee may wish to question us on.

Mr Campbell—Like our colleagues in the Department of Primary Industries and Energy, Environment Australia welcomes the opportunity to address the committee and also welcomes the audit report. It identifies a number of significant issues, ranging from a review of formally independent environment programs which have since been integrated in a more comprehensive approach under the Natural Heritage Trust.

Environment Australia is taking the recommendations made by the ANAO report extremely seriously. Many of these recommendations have already been acted upon or are planning to be incorporated in the development of new programs under the Natural Heritage Trust. They provide us with a valuable context for a more consistent approach to program design and, in particular, the opportunity to implement best practice measures related to program effectiveness and accountability.

The key issues that we see raised in the report are those that relate to the difficulties of measuring the performance of environment programs against program objectives, particularly where ultimate outcomes of those programs may be measured many decades after the initial outputs of the projects under those programs. This is a major problem for us not only historically but also in designing programs under the Natural Heritage Trust. Nevertheless, we feel that significant progress has been made in developing much more detailed program objectives and much more detailed performance measures, building those into our overarching partnership agreement with the states and territories for the delivery of Natural Heritage Trust programs and building those into the contractual arrangements which will sit under that partnership agreement.

We recognise that performance information for community grants programs could be improved. We have been working with the Department of Finance to develop overarching performance information. Individual program areas have been working with the Australian National Audit Office and the Department of Finance with a view to improving our performance information. In fact, we have seconded an officer from the National Audit Office to work with us on this endeavour.

We also agree that there needs to be a more rigorous needs assessment process for Natural Heritage Trust programs, particularly the community grants programs. A more structured process being put into place under the Natural Heritage Trust should enable us to better match client needs with Commonwealth priorities. But a number of environment programs have, in addition to the one-stop shop process, the identification of strategic priorities at a national level and targeting of investment directly to those priorities. Some programs like bush care, the national vegetation initiative, have a mix of the two—the reactive community grants and the strategic targeted incentives.

In developing the framework of the Natural Heritage Trust we have given particular consideration to providing better client service. We are shifting, as the National Audit Office has recommended, from single-year projects to three-year projects, allowing the development of more comprehensive approaches over time. The one-stop shop has been improved under the Natural Heritage Trust and will be further improved. We are committed to delivering a system which will mean for community groups one application form, one assessment process, one set of time lines, one check and one report. That is something the community groups have been demanding for some years.

Furthermore, there will be, as the National Audit Office has recommended, the introduction, particularly for major grant payments, staged payments over time so that payments will be conditional upon the achievement of certain milestones. However, we do not see that applying to all grants. The effort required to implement a system like that for a grant of $10,000, we believe, is not warranted, compared to a grant of several million dollars, where it is clearly warranted.

There is a tension between accountability and devolution. We cannot afford to lose the participation and voluntary effort of community groups in these programs which multiplies the Commonwealth dollar many times. That is something we have to be extremely mindful of. We have to design a system so that we can achieve the accountability requirements which are expected of us without alienating those whose efforts we are relying upon to achieve program objectives.

The development of the Natural Heritage Trust has intensified cooperation between Environment Australia and the Department of Primary Industries and Energy. We believe we will be able to deliver a much more seamless product at the community and regional levels. Mr Chairman, I do not want to add further to that, other than to say that the Natural Heritage Trust provides us with a framework through which we can implement in full or in part all of the recommendations in the National Audit Office report.

CHAIR—Mr McPhee, would you like to make a comment?

Mr McPhee—Firstly, Commonwealth funds have been allocated over four years to the national landcare program administered by DPIE and conservation programs administered by Environment Australia; secondly, the government had announced its

intention of increasing outlays through the $1.25 billion Natural Heritage Trust; and, thirdly, it would provide the opportunity to document the lessons learnt from the programs to improve their administration in the future.

The audit focused on the key program elements that will form major components of the NHT such as the national landcare program in DPIE, and the one billion trees and save the bush programs in Environment Australia. The audit was planned to have a strong forward looking focus. Best practice benchmarks and audit criteria were developed using key sources such as the ANAO's *Better practice guide on the administration of grants*, the ANAO and the Department of Finance *Better practice guide on performance information principles*, this committee's report No. 342 on the administration of special purpose payments and the report of the Council of Australian Governments on tied grants. Basically we developed the audit framework on the basis of documents that have been published by this committee, the Australian National Audit Office, the Department of Finance and other parties.

In terms of the key findings, we found overall that, some five years after the then Prime Minister's statement on the environment and nearly eight years into the decade of landcare, the Commonwealth is still unable to indicate in any detail the outcomes that have been achieved from many of the programs examined. The ANAO recognises that environmental outcomes, in particular, can be difficult to measure because of the long lead times involved. Nevertheless, the ANAO considers that progress towards achieving ultimate program outcomes should be measured to the maximum extent possible. This requires a stronger emphasis on outcomes rather than on inputs and a more cost-effective management of risks. DPIE and Environment Australia are not alone in this difficult area of trying to measure outcomes, but the audit report does encourage a stronger focus on risk management and outcome measurement.

The areas of risk form a substantial focus of the recommendations in this report. In summary, they reflect the importance of setting operational objectives for programs that are concise and realistic; measurable outcomes and orientated statements of what the program aims to achieve; establishing clearly differentiated roles and responsibilities for the Commonwealth and other parties to the agreements; developing adequate performance indicators and milestones linked directly to objectives; strengthening the needs assessment process; further improving the client focus of the program; improving performance on monitoring, reviewing and reporting; introducing competitive tendering where appropriate; ensuring that administrative resources are focused on the highest areas of risk; moving to best practice for cash management; introducing appropriate incentives and sanctions with the contracts or agreements; and ensuring that the potentially significant risks in cost shifting are carefully managed.

At the time of the audit, the ANAO was concerned about delays in the finalisation of the partnership agreements, and it could take up to 18 months to finalise NHT partnership agreements. As a result, the Commonwealth would not be able to adequately

assess NHT program performance. However, since the completion of the audit, the ANAO has been made aware of the intense efforts of DPIE and Environment Australia to finalise these agreements. DPIE and Environment Australia generally responded positively to the audit report and agreed, with minor reservations, to all of the report's recommendations.

Subsequent to the audit report, the ANAO has accepted an invitation from Environment Australia to provide more detailed advice on the development of monitoring, review and reporting arrangements for the NHT. Mike Lewis, Peter McVay and Grant Kaine were the senior staff involved with the audit.

CHAIR—Thank you. Mr Lee, you said there were parts of the audit report that you did not agree with. Would you elaborate on that statement?

Mr Lee—Yes. I do not wish to be defensive on the part of the department because we are taking the audit in the spirit in which it was made and we are moving forward. We can certainly talk to you about a range of actions we are immediately taking in terms of the recommendations.

In general, we consider the audit report to be rather dismissive of the achievements of the landcare program to date. We think that we have been at cross purposes in our discussions with the Audit Office while talking about establishing what are the appropriate objectives to measure the landcare program against.

The Natural Resources Management (Financial Assistance) Act 1992 actually makes statements of objectives. In it there is a broad statement relating to sustainable resource management and, beneath it, a number of operational objectives, which line up very closely with the text of the decade of landcare plan and which are the operational objectives that the landcare program has been attempting to deliver.

Those objectives relate to the human interest structure involved on the land of those that are responsible for managing resources and for farming practices. Landcare, in our view, has been extremely successful in gathering community support, in providing information, and in building a change of attitudes towards the landscape among those that manage elements of the landscape so as to produce better environmental outcomes—more sustainable environmental outcomes.

We believe that the audit itself moved back somewhat to the past in that there is an emphasis on repair of works on the ground. I think that is evidenced by the photographs in the report on filling in gullies. We believe that the whole spirit of the decade of landcare was to move forward from remedying erosion problems on the ground to changing human behaviour so that those erosion problems would be less likely to occur in the future.

Landcare, in this audit report, appears to have been criticised on the basis of its not having measured the ultimate result in the landscape of changing the human infrastructure

that is involved in resource management practices. That indeed is a very large challenge to monitor and to evaluate. We see on the horizon, with the land and water audit, a tool that will be available at a very large expense—some $32 million out of the Natural Heritage Trust—to get a comprehensive picture across the landscape, and to build indicators that relate to this very high-level objective in the Natural Resources Management (Financial Assistance) Act relating to the ultimate outcome of landcare, which is to see an improvement in the sustainability of farming systems and improvements in the landscape ultimately.

Those improvements may not be visible for 20 or 30 years. In the meantime, we have had operational objectives. We have worked very hard through landcare to build community support and to change attitudes and behaviours. We believe there is abundant evidence of evaluation to show that has been successful. Mr Chairman, I have a document here that has 17 evaluation reports of various elements and aspects of landcare which I would table with your permission. Some of those are referred to in the audit, and some 11 are not.

The other principal problem of the findings—again I do not want to be seen to be defensive because I think we need to move on from this—is that it appeared that the Audit Office regarded landcare as a monolithic single program, which it is not. There are many elements to landcare, including the core traditional landcare component, drought landcare and the Darling Basin salinity programs, et cetera. All of those elements have had quite defined operational objectives set by government, and we have been able to measure progress against those objectives.

In summary, one principal disappointment we have with the audit report is the fact that it seems to be dismissive about the achievements of the landcare program in a somewhat unfair way. There are some other mixed messages in the report. There certainly are some very good messages about reducing the focus on inputs. On the other hand, in some cases we are urged to do more on the input end in relation to monitoring so as to detect cost shifting from the state to the Commonwealth, or double-dipping in relation to grants.

Putting that aside, as well as the difficulties that we have with some of the findings, we are very pleased to have this as a resource from which to move forward and design the Natural Heritage Trust, which presents a very large challenge: it is a large block of money; it is a very sober responsibility to administer such a program. It is very important that we get off on the right foot with objectives and indicators. The work that has been done through the National Audit Office in here is very useful in that regard. We are working closely with the National Audit Office, the Department of Finance and our colleagues in Environment Australia to make sure that we have clear operational objectives. As we move through the life of the trust, we will be able to measure and report on achievements.

Mr GEORGIOU—Did you communicate all these attitudes to the ANAO? Were they embodied in its responses to the recommendations?

Mr Lee—The sentiments and views that I have expressed were conveyed to ANAO in the course of the audit.

Mr GEORGIOU—Are they embodied in your responses as reported in the ANAO report? They do seem a bit more robust than the responses that I have heard. Does this mean that your reasonably strong views are being watered down somehow?

Mr Lee—I would need to consider the actual text.

Mr GEORGIOU—I will explain more clearly. Basically, all departments have an opportunity to respond and most do. When I realised that you had put in another submission, I looked at the tone and tried to match up the almost universal agreements with the tone of the letter. By the way, are the comments by the Department of Primary Industries and Energy authorised by the secretary to the department? Is that a document authorised by the secretary to the department?

Mr Lee—Yes, that is a document authorised by me on behalf of the secretary to the department.

Mr GEORGIOU—So it is authorised by the secretary to the department in fact?

Mr Lee—The secretary to the department vested me with the office of Acting First Assistant Secretary, Land Resources Division, which has responsibility for this program.

Mr GEORGIOU—Does this reflect the secretary's views?

Mr Lee—I have not discussed the content of that report in detail with the secretary, but I believe it would be supported by the secretary.

Mr GEORGIOU—I have compared it fairly quickly, because I had not seen this before. My understanding is that audit does replay fairly faithfully the tone and character of the responses that are in writing. Why would there be a discrepancy between the two documents? Has there been a second thought or has something happened in between?

The responses to the audit report as embodied in the Auditor-General's report are comparatively mild and almost universally welcoming. And now we have heard that somehow landcare's achievements have been understated. I would urge that, if you have problems with the report, you nail them in the context of the report itself, rather than having a second bite at the cherry.

Mr Lee—I need to go through the text of the audit report, but the sentiments I

have expressed and which are expressed in that submission, I dare say are not—

CHAIR—They are not expressed in the audit report itself. We have the recommendations of the Auditor-General and we have the departmental responses. What Mr Georgiou is saying is that what you have conveyed to the committee today is not reflected in the Auditor-General's report.

Mr GEORGIOU—It is a lot stronger.

CHAIR—Mr McPhee might like to comment on the reasons for that.

Mr McPhee—We do have a due process that seeks to understand the agency perspective and the strength of the feeling in their comments. We have an exit interview and exchanges of correspondence. The draft report is in fact passed by the agency for comment. We do try to faithfully pick up their perspective in the agency response. We do endeavour to do that.

CHAIR—Perhaps, Mr Lee, you would like read page 14 of the recommendations. Just have a look at the responses by DPIE and see if they are consistent with what you have told us. It is quite lengthy. If you cannot do it now, we are happy to accept that in writing later.

Mr Lee—Mr Chairman, I cannot quite find the area of text. My colleague Mr Byrne would like to make a statement, if that is acceptable.

Mr Byrne—We did make comment along the lines of this document to the National Audit Office on the basis of a draft report in which we had particular concerns about a difference in tone between the executive summary and the report. The National Audit Office did take on board some of our comments. This piece of paper was prepared following the release of the audit report, reflecting some concern on our part about the tone of the press reports that related to the audit report. We felt that we needed to put those views, particularly with respect to the issue of defining outputs and outcomes, down on paper.

CHAIR—Were those conveyed to the National Audit Office in writing?

Mr Byrne—Yes, in writing, and also in a face-to-face discussion with the National Audit Office.

Mr GEORGIOU—And this was actually in response to the press take-out from the audit report that motivated you to think that somehow more could be done?

Mr Byrne—That's correct.

Mr GEORGIOU—I can understand that. I would be concerned if in the gist of your responses, which, as I say again, are much stronger both verbally and in this document than they are reflected in the report, you felt that there was any watering down of your initial responses as distinct from what you thought you should say after you read the press reports about the audit report.

CHAIR—Mr McPhee, you might like to tell us whether it is usual for an agency to sign off on their responses to recommendations.

Mr McPhee—Indeed; in fact, it is required under our act. We ask agencies for their comments on our reports.

CHAIR—So they would have signed off on all those comments?

Mr McPhee—They would have signed off on those comments. The more detailed comments are in the body of the report. Essentially, we do try to take it word for word but, from time to time, we paraphrase just to get the length. I am not sure what happened in this case, but it is certainly intended to be a faithful representation of the agency comment.

I do not think we have heard from DPIE in the light of the press reports. But we do make a special effort to ensure that our brochure is a faithful representation of the summary of the report. We can't control the media, of course, and sometimes they do embellish some of the audit findings of an inquiry.

CHAIR—It is important that when a report is tabled in parliament, departmental responses in that report do reflect the responses of the department and the views of the department, given that it is tabled in the parliament.

Mr GEORGIOU—I am interested in performance indicators. I address this to Mr McPhee or whoever is appropriate. Can you tell us what problems you had in tangible terms about reporting against performance indicators or in the character of the indicators themselves?

Mr McVay—The problems with differences in the two departments are that in DPIE the original program was set up with performance indicators—milestones—and, in fact it was designed very well. The difficulty was that in the partnership agreement itself there was a clause which enabled the states to report either on the basis of the schedules to the partnership agreements or on the basis of projects. I think in every case the states reported upon a project basis rather than against the schedule. So, in essence, the indicators and milestones basically were bypassed because of that process.

Mr GEORGIOU—How was that mismatch between indicators and reporting on projects allowed to go forward?

Mr Lee—I am not quite clear on the question.

Mr GEORGIOU—Basically, there were indicators and milestones as part of the project, but it was also possible to report on progress in the project per se, as I understand it. States actually reported on projects rather than against tangible milestones and indicators.

Mr Lee—There is certainly extensive reporting against project objectives. That is part of the annual process of reviewing progress and providing additional funds. In relation to indicators, perhaps I could turn to my colleagues, Mr Willcocks or Mr Byrne.

Mr Byrne—In terms of reporting against outcomes, the set of outcomes which we had jointly defined with the states were set out in the decade of landcare plan and referred to in the state partnership agreements. We believe they have been assessed through the range of evaluations which Mr Lee mentioned. For instance, one of the key focuses of activities under the program has been on changing attitudes and changing management practices.

An important resource in terms of assessing those outcomes across all the states has been the ABARE farm survey which had a separate section in it dealing with landcare activities. One of the findings of that survey was that membership of a landcare group—which has been one of the key aspects promoted under the program—brings with it a higher level of adoption of sustainable management practices. We saw that as a fairly important outcome which relates to activities in all the states and which was assessed through that method.

I think it is fair to say that the performance indicators we have had nationally and in the states have been at a fairly general level and have focused on the issue of building capacity and building the human capital. That has been the focus of the program. We have had a collaborative process with the states to develop more specific indicators of sustainable agriculture which we in the states regarded as the next step in providing some better performance indicators for assessing the national landcare program. Those indicators have an economic aspect, an on-site environmental aspect and an off-site environmental aspect to them. We now have, as Mr Lee mentioned, the land and water audit which will provide a much better basis in the future for making these assessments.

Mr GEORGIOU—One example in the audit report that caught my eye, and it may be better addressed to Environment Australia, says:

. . . one project had the stated aim of '*establishing an estimated 5 million trees and shrubs by local groups*.' However, the reporting indicators for this project were the number of groups supported and projects assisted . . .

That has nothing to do with the number of shrubs planted? Is that a characteristic

problem?

Mr Campbell—I think that was a weakness of the former vegetation programs, which have all been rolled into the one national vegetation initiative in the Natural Heritage Trust. It is also true to say that just counting trees or counting stems does not tell you much about what that project achieved. It is more important to focus on asking how many hectares there are of what type of vegetation in what part of the landscape and for what purposes. In that instance—and this was a point made by the ANAO—the project objectives were probably framed in too simplistic a way. It is very easy—as a photograph in the Australian National Audit Office report instances—to plant some pine trees around the head of a gully which looks like it is fairly stable. The environmental impact of that project would not be very significant.

Mr GEORGIOU—Does that mean that you will not be talking about planting five million bushes any more?

Mr Campbell—It is more important—

Mr GEORGIOU—They do have a certain political attraction.

Mr Campbell—Indeed.

CHAIR—I do not think anyone queries the value of the landcare program, especially those of us who have had landcare program projects in our electorates. I do not know how many you have had in Kooyong, Mr Georgiou.

One of our members, Mr Vaile, who had to leave unexpectedly at lunch time, was interested in a couple of areas, and he asked me to ask DPIE a question. The report noted that local knowledge is often the basis for project applications and the regional assessment process. It also stated that, while primary producers have a relatively high level of concern for the environment and of awareness of land degradation, research has found that their specific knowledge of land degradation processes is poor and the adoption of desirable land management practices is not widespread. These comments are on pages 35 and 36 of the report. Given this, how will DPIE ensure better practice in regional assessment of projects? Mr Vaile is a rural member also.

Mr Byrne—This is an issue which we have been conscious of in developing the arrangements for assessing projects under the Natural Heritage Trust, which goes well beyond the coverage of projects through the national landcare program to extend to the other major programs—for instance, the bushcare program, which relates to vegetation, and the rivercare program. There has been a concern to ensure that the regional panels and the state assessment panel have the right membership to cover the issues and also access to the right technical advice.

It is fair to say that both our ministers have taken a close interest in this issue of membership of the assessment panels, to ensure that there is the right expertise.

CHAIR—How can national priorities be best assessed and matched with submissions being put forward?

Mr Byrne—That is, importantly, an issue of communicating the objectives to the panels. In negotiating the current partnership agreements with the states, we have been putting a fair amount of effort into defining the expected outcomes from the programs in clear terms—and better operational terms, as has been discussed—and also, into having clearer and more specific performance indicators related to those outcomes.

Also, the process is very much bottom up, in the sense that projects are developed at the community local level, but there does need to be some clearer input of broader objectives. That can be achieved, particularly at a geographical scale, with more focus on regionally integrated projects that bring together the range of activities—natural resource management and environmental activities—within a particular region or at a catchment level.

CHAIR—Mark Vaile also had questions about the handling of specific purpose payments. It is a matter on which this committee has reported in past years. He said the ANAO's report observed that the Commonwealth could save $9.9 million over the life of the NHT by moving to a quarterly payment of grants to service delivery agencies—that is on page 105. Are you satisfied with the response of agencies to recommendation 10? That question is to Mr McPhee. The next question is to DPIE and EA. How seriously are cost management considerations treated in the management of natural resource and environment programs? Are program managers aware that their decisions about the timing of payments can cost the Commonwealth millions of dollars? What do you do to heighten and maintain awareness of these issues? Those two questions are linked, so I will ask Mr McPhee to respond first.

Mr McPhee—Mr Chairman, both agencies agreed with it, but DPIE had some reservations about part of the recommendation dealing with the timing of payments. If I read it correctly, I understand that is related to the availability of resources to manage this quarterly payment process. Perhaps I should get Peter McVay to respond, as he knows it in a bit more detail.

Mr McVay—There are two elements to cash management. One is the quarterly payment system, which both departments were moving to with the Natural Heritage Trust. The second issue is the link between the date that payments go out, to try to get them to coincide with peak taxation receipts, to minimise the cost to the Commonwealth.

Perhaps DPIE would like to comment, but I do not see what the resource implication for us is. It is simply a matter of checking the date when you send your

cheques out so that they coincide with the seventh, eighth, ninth, 21st and 22nd day of each month. That is all you have to do—just check that the timing is the same—so I am not sure why there is a resource implication there. You have simply to check to make sure that there is a coincidence between the payments and the taxation receipts coming on the other side.

CHAIR—It has a major bearing on the Commonwealth's borrowing requirement, of course. Mr Lee, you did refer to that in your remarks before, did you not?

Mr Lee—Mr Chairman, I will pass this to Mr Willcocks.

Mr Willcocks—Under the landcare program, DPIE makes most of its payments quarterly. The only exception to that is payments to community groups, which make up roughly 20 to 30 per cent of payments in any one year, depending on the year. The community group payments are made in advance and in total for the year. Otherwise, the bulk of the payments are made quarterly. So, as far as we are concerned, we are effectively meeting that requirement.

CHAIR—What about Environment Australia?

Mr Campbell—We are moving through the partnership agreement. With the states there is a specific clause which makes provision for quarterly payments, and that will be the basis for making payments. We have certainly taken into account the Audit Office's recommendation about the timing within the month of those payments.

With our colleagues in the Department of Primary Industries and Energy, we believe it is counter-productive to try to introduce a quarterly payment system for grants of $10,000—small community grants. It does not do much for our relationship with the community. So, for small grants, we would continue to make payments upfront but with more stringent reporting requirements than in the past. Similarly, with payments to service deliverers such as Greening Australia, we have rescheduled grant payments to be contingent on the achievement of specified milestones, and withholding of final payments—a much larger proportion than in the past—against final program acquittal. In that regard, as recommended by ANAO, we are moving towards competitive tendering for that form of service delivery.

CHAIR—The point is taken about the small grants obviously. May I ask DPIE, the ANAO's report observed at page 119 that the risk of cost shifting is likely to increase because of the injection of extra Commonwealth funds through the Natural Heritage Trust. What safeguards are being put in place by the Commonwealth to reduce the risk of cost substitution by the states?

Mr Lee—That is an area of concern and is also one of those mixed messages which I referred to earlier in my opening discourse. We can see there is a need to move

from an input focus to an output focus but there are other recommendations that do point squarely to input concerns; the issue of cost shifting is one that does need some attention.

By and large we will be moving, under the Heritage Trust, to aggregation of projects and to administer these programs at a more strategic level. There are risks involved in that which have to be managed. One of the risks is potential cost shifting. I think that my colleague, Mr Byrne, can add to that response.

Mr Byrne—Cost shifting has certainly been one of the issues that have been fairly central to the discussions with the states in developing the partnership agreements. In those agreements we have been developing some provisions relating to cost sharing to try to set out some principles relating to cost sharing and also to ensure that the activities under those agreements by the states clearly identify how the state activities are going to advance the outcomes and the priorities that the Commonwealth defines for the suite of programs that is being funded from the Heritage Trust.

Mr Campbell—I could add to that, having just participated in two state assessment panel meetings in New South Wales and Perth in the last week. The community members who form the majority of those panels are becoming more and more sophisticated in their forensic analysis of state agency submissions under the trust. They are certainly getting better at keeping state agencies honest at a regional level and at a state level where they can spot cost shifting from a considerable distance.

CHAIR—I think we have all had experience with cost shifting. I think I might adjourn the meeting there. There are quite a number of other questions I think we need to ask the agencies and the Audit Office but our full complement of membership is not here today, mainly through illness. Quite a few people have an advanced version of what I and Mr Georgiou have. If the agencies would agree to cooperate by answering some questions in writing, should the other members after examining the transcripts and so on wish to, then we can conclude the inquiry. Thank you all very much for attending. It is much appreciated.

Committee adjourned at 3.59 p.m.