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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Reference: Review of Auditor-General's reports third and fourth quarter 1998-99

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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Friday, 13 August 1999

Members: Mr Charles *(Chairman)*, Senators Coonan, Faulkner, Gibson, Hogg, Murray and Watson and Mr Andrews, Mr Brough, Mr Cox, Mr Georgiou, Ms Gillard, Ms Plibersek, Mr Somlyay and Mr St Clair

Senators and members in attendance: Senator Gibson, Mr Charles, Mr Cox, Mr Georgiou, Ms Gillard and Mr Tanner

Terms of reference for the inquiry:

Review of Auditor-General's reports third and fourth quarters 1998-99

WITNESSES

Committee met at 10.07 a.m.

CHAIRMAN—Today's public hearing is the final in a series of hearings to examine reports tabled by the Auditor-General in the financial year 1998-99. This morning we will be taking evidence on two audit reports; namely, *Audit Report No. 25, 1998-99: DASFLEET Sale* and *Audit Report No. 34, 1998-99: Fringe Benefits Tax*. The committee has received one joint submission from the Department of Finance and Administration and the Office of Asset Sales and IT Outsourcing in relation to Audit Report No. 25. 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 strictly observe a number of procedural rules. First, only members of the committee can put questions to witnesses. The committee's hearings constitute formal proceedings of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion, I would ask them to direct their comments to me and the committee will decide if it wishes to pursue the matter. It will not be possible for participants directly to respond to each other.

Second, the length of the program statements and comments by witnesses should be relevant and succinct. Third, I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Evidence given today will be recorded by Hansard and will attract parliamentary privilege. I draw the attention of members of the press who are present to a committee statement about the broadcasting of proceedings. In particular, I draw the attention of the media to the need to report fairly and accurately the proceedings of the committee. Copies of the statement are available from secretariat staff.

I now welcome representatives from the Australian National Audit Office, the Department of Finance and Administration and the Office of Asset Sales and IT Outsourcing to the first session of today's hearing.

[10.10 a.m.]

CRONIN, Mr Colin, Executive Director, Australian National Audit Office

HOLBERT, Ms Fran, Senior Director, Australian National Audit Office

McPHEE, Mr Ian, Deputy Auditor-General, Australian National Audit Office

SMITH, Mr David, Senior Director, Performance Audit Services Group, Australian National Audit Office

THOMPSON, Mr Allan, Executive Director, Australian National Audit Office

SAAVE-FAIRLEY, Ms Louise, Branch Manager, Competitive Tendering and Contracting, Department of Finance and Administration

WRIGHT, Dr Diana, General Manager, Resource Management Framework, Department of Finance and Administration

HUTCHINSON, Mr Michael James, Chief Executive, Office of Asset Sales and IT Outsourcing

HUTSON, Mr Jonathan, Senior Director, Office of Asset Sales and IT Outsourcing

CHAIRMAN—We have convened this public hearing to examine the main issues raised in Auditor-General's Report No. 25 on the sale of DASFLEET. The JCPPA will take evidence today on a number of issues, including tender evaluation, residual vehicle risk, the sale outcome, and the Commonwealth's post sale risk. The committee also wants to examine the issue of whether the Commonwealth received fair value from the sale of DASFLEET. Does Dr Wright wish to make a brief opening statement to the committee before we proceed with questions?

Dr Wright—No.

CHAIRMAN—Mr Hutchinson, do you wish to make a brief opening statement?

Mr Hutchinson—I have two points to make by way of an opening statement. First, I welcome the opportunity to assist the committee in its inquiry. I draw the committee's attention to the fact that this is a transaction which was concluded two years ago. The executive director of my office who supervised this group of sales is no longer with us. Therefore, there may be a need for us to take some issues on notice if the officers available to me do not have the relevant recollection or the documents I have before me do not cover the ground.

The second issue is to draw your attention again to a matter covered in our submission—that is, there are aspects of this sale that are now in dispute between the Commonwealth and Macquarie Bank. That dispute is proceeding to arbitration and I trust the committee will understand that it may be appropriate for us to be careful how we cover some of the ground

in that arbitration in order to protect both the Commonwealth's interest and the justice of that arbitration process.

CHAIRMAN—You are not implying, I hope, that because this issue is some two years old that we should not be inquiring into it.

Mr Hutchinson—Absolutely not. It was a plea for some understanding of the time that has elapsed and the frailness of human memory.

CHAIRMAN—Okay. Mr McPhee, do you wish to make an opening statement?

Mr McPhee—We have prepared a detailed statement based on the audit report. I would like to table that. Fundamentally, the audit focused on three areas; namely, the tender process, risk management and the lessons for the future arising from the sale. We would be happy to take the committee's questions.

CHAIRMAN—Thank you. Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The statement read as follows—

CHAIRMAN—I wanted to start by simply making a statement. Dr Wright or Mr Hutchinson, whoever wants to respond, our secretariat has come up with 37 questions to which some of those there are four or five subsets. How on earth did we make such a mess of what one would have thought to be a relatively simple procedure? Or do you think it is not a mess?

Mr Hutchinson—Let me respond very directly by saying that I have not seen the secretariat's 37 questions. Therefore, I am shooting in the dark in responding to your suggestion that these 37 questions are in any way indicative of a mess. OASITO would refute that it is a mess. We would not claim that the process was without flaw, but we would certainly refute any suggestions that it was a mess. I find that suggestion very troubling.

Dr Wright—Equally, I have not seen the questions. The role of the Department of Finance and Administration is as the monitoring body under the tied contract. We are the contract managers. The former DAS provided input to the sale process, but we are not managers, as I say, of the process.

CHAIRMAN—We understand that the outcome of the sale process was that leases entered into under the tied contract which expired before the tied contract matures on 1 September 2002 are considered by the Reserve Bank to be finance leases. The RBA's view is that under the tied contracts essentially all the risks and benefits incidental to ownership of the vehicle are effectively transferred from the DASFLEET owner to the Commonwealth. Could you comment on that please?

Mr Hutchinson—I cannot comment on what the Reserve Bank's view might or might not be. All I can comment on is that the Reserve Bank has agreed that the capital Macquarie has involved in this transaction for that period attracts the risk weighting that the contract assumed. The basis on which the Reserve Bank formed its view is a matter for the Reserve Bank.

CHAIRMAN—I am not asking you about the Reserve Bank's view. We are making the statement that that is the Reserve Bank's view. Is that what was intended? We sell the fleet of vehicles to Macquarie and we lease them back, so we have effectively tried to transfer the liability from the Commonwealth to Macquarie Bank Fleet Leasing but, in effect, we still have the liability. It does not sound like very good business to me, Mr Hutchinson.

Mr Hutchinson—Mr Chairman, you misrepresent the nature of the transaction. We sold the business called DASFLEET to Macquarie Bank. Macquarie Bank bought the business. The business was that of leasing vehicles to the Commonwealth. The terms of the lease of the vehicles to the Commonwealth under the tied contract are not materially different from the terms under which DASFLEET leased those vehicles to the Commonwealth while the Commonwealth owned the business. This was not a sale and lease-back of vehicles, this was not an exercise in shifting risk around the place; this was an exercise in divesting the Commonwealth of an operating business.

Mr TANNER—Is it correct that the tenders were put out on the basis that an operating lease would emerge from the agreement?

Mr Hutchinson—We sought tenders on two alternative bases: the sale of the business or a sale and lease-back of the vehicle fleet. The transaction that proceeded was the sale of the business.

Mr TANNER—So are you saying that the expressions of interest were sought with no reference as to whether the lease-back would be an operating lease or a finance lease?

Mr Hutchinson—No. The tenders were sought on two alternative bases: the sale of the business or the sale and lease-back of the vehicles. In response to the evaluation of those tenders, we then proceeded with tenders that had responded to the sale of the business.

Mr TANNER—I repeat the question: was there any reference in the seeking of expressions of interest as to whether any lease-back, should it emerge, would be an operating lease or a finance lease?

Mr Hutchinson—The request for proposals were sought on the basis that they would be an operating lease, and that is the nature of the relationship between DASFLEET and the agencies that lease vehicles from DASFLEET.

Mr TANNER—How do you then explain the fact that a circumstance has arisen where, according to the Reserve Bank, for the period of the tied contract we have leases that are finance leases and therefore the risk remains with the Commonwealth and that you have an arrangement that leads to a higher price for the leases that are continuing after that period?

Mr Hutchinson—The commercial basis of the business that DASFLEET does with the Commonwealth is that it leases vehicles to agencies and in the accounts of the agencies those leases are operating leases. The head agreement that DASFLEET has with the Commonwealth, part of the sale transaction and the five-year tied contract, is itself a finance lease. So there are both finance leases and operating leases in this structure. It is not one or the other; both are there. It is an operating lease at the agency level and a finance lease at the whole of government level.

Mr TANNER—Sorry, that was not the question that I asked. What I am asking you is: if you put out to tender on the basis that the nature of the lease arrangement between the ultimate successful tenderer, which turned out to be Macquarie Bank, and the Commonwealth would be an operating lease—that is my understanding of the answer you gave a few minutes ago—how do you explain that, according to the Reserve Bank, the leasehold arrangement that eventuated, at least for the period of the tied contract, was a finance lease?

Mr Hutchinson—I fail to see that there is anything to explain.

Mr TANNER—Let me repeat the question. According to your previous answer a few minutes ago, you said that tenders were put out on the basis that if there were a lease-back it would be an operating lease. According to the Reserve Bank, what has happened is that there has been a lease-back but it is a finance lease. How do you explain that?

Mr Hutchinson—There has not been a lease-back. There are leases entered into between Macquarie—

Mr TANNER—Okay. Delete the word 'lease-back'. There has been a lease.

Mr Hutchinson—But the transaction we entered into was not a sale and lease-back of the Commonwealth's vehicle fleet. The transaction we entered into was the sale of the business. The business then had within it operating leases between that business and Commonwealth agencies, supported by a finance lease at the whole of Commonwealth level.

Mr TANNER—That is entirely irrelevant to my question. You conceded a few minutes ago that any lease that was going to be entered into with respect to Macquarie or whoever the successful tenderer might have been was going to be an operating lease. The Reserve Bank says that the lease that did eventuate was a finance lease. I am asking: why did that happen?

Mr Hutchinson—I am indicating to you that I did not say that the tender document said that any lease entered into with the successful partner would be an operating lease. What I said was: if there were to be a sale and lease-back transaction, then that would be an operating lease. But there was not a sale and lease-back transaction—end of story. There was a sale of a business and that business had within it the transactions I have just discussed. Therefore, there is no inconsistency of the sort you are trying to—

Mr TANNER—Are you able to give us a copy of the relevant document seeking an expression of interest that indicates that?

Mr Hutchinson—We can certainly provide that to the committee.

CHAIRMAN—We would like both the tender document and the contract, Mr Hutchinson.

Mr Hutchinson—That is no problem.

CHAIRMAN—I know it is not a problem.

Mr Hutchinson—We do not have that documentation available here.

Mr TANNER—So effectively what you are saying is that the seeking of interest document was silent on the question that I have asked. In other words, it said: if there is a sale and lease-back arrangement, it is an operating lease but, if it is some other arrangement, it is silent. Is that effectively what you are saying? I understand the distinction you are drawing.

Mr Hutchinson—In respect of the sale, rather than the prospective sale and lease-back which did not proceed, the document did indicate that the leases between the business and the agencies would be operating leases and they are.

Mr TANNER—Right.

Mr Hutchinson—But there is an additional arrangement in the offer we accepted from Macquarie which adds a finance lease at the whole of Commonwealth level, which was not, to the best of my recollection and knowledge, contemplated in the information memorandum but was a feature of Macquarie's bid that imposed a finance lease at the whole of government level. The assessment was that that finance lease—

CHAIRMAN—Is that the understanding of the Audit Office?

Mr McPhee—We made a reference in the report at paragraph 2.11 to this issue.

Mr Cronin—Our understanding was that there was the refinancing option and then there was the sale option. As we comment in the report, the information memorandum of April 1997 says that this assumed that vehicle leasing arrangements post sale will be conducted on an operating lease payment basis. This is on page 5 of the information memorandum. It was our understanding that we were actually undertaking a sale. This normally requires the transfer of risk to the buyer.

Mr TANNER—In other words, what you are saying is that whether or not there was a sale and lease-back the leasing of vehicles by the Commonwealth would be an operating lease. That is your understanding of what OASITO's proposal was.

Mr Cronin—We were looking at the documentation that flowed to bidders in the tender process. We looked at the information memorandum and the various options.

Mr TANNER—By the sound of it, Mr Hutchinson is disputing that.

Mr Hutchinson—No. My previous answer indicated that documentation calling for bids to buy the business indicated that the Commonwealth's preferred basis would be that the business they were buying would be the business of entering into operating leases with the Commonwealth. The offer that Macquarie made and that we accepted had operating leases between the business and Commonwealth agencies, but it added the overlay of a finance lease at the whole of Commonwealth level. That is a departure from the Commonwealth's preferred basis. The Commonwealth assessed that accepting that departure was in its interests and accepted that variant of the bid.

Mr TANNER—Do you still think it was in the Commonwealth's interests?

Mr Hutchinson—If the contract and the financial and commercial arrangements are upheld as the Commonwealth expects them to be, I still believe that is in the Commonwealth's interests.

Mr COX—That financing lease was designed to give Macquarie Bank cheaper access to capital.

Mr Hutchinson—That is a statement. My understanding is that the arrangement, regardless of the effect it gave Macquarie, provided the Commonwealth with an advantageous overall outcome in present value terms.

Mr COX—Did it provide Macquarie Bank with access to cheaper capital?

Mr Hutchinson—I have absolutely no knowledge or understanding of the capital structure of Macquarie Bank.

Mr COX—Didn't you think that, since they were introducing it into the arrangements, that was something you had an obligation to look at?

Mr Hutchinson—I would have thought at the time that Macquarie would not have introduced that into the contract were it not in their interest to do so. I did not see any need to inquire into what those interests might be, provided they were proper, because it was also in the Commonwealth's interest. It was the Commonwealth's interests that I had a stake in, not Macquarie Bank's interests.

Mr COX—Did you compare that element with those of other bids?

Mr Hutchinson—The two bids were compared thoroughly in respect of all elements. It is not an element by element comparison; it is a whole of bid versus whole of bid comparison.

Mr COX—So you did not compare the relative financing costs of the two sets of bids?

Mr Hutchinson—The financing costs of the two sets of bids would have been included in the evaluation of each bid. The bottom line for the Commonwealth was not whose financing costs are highest or lowest or most advantageous to the bidder but whose overall deal is in the best interests of the Commonwealth.

Mr COX—Did you not look at the relative risks of the elements of each of the bids?

Mr Hutchinson—There was an overall risk assessment as part of the bid evaluation, yes. But again it is not a question of comparing the risk in one element of the bid with the risk in the corresponding element of another bid—assuming there is a corresponding element. It is a question of assessing the risks of the total bid and comparing those with the risks of the alternative total bid.

Mr COX—The two bids were very close for a transaction of this size. Surely you would have gone through them in some detail?

Mr Hutchinson—They were gone through in incredible detail. There was a voluminous assessment.

Mr TANNER—I understand no post-bid negotiations occurred with LeasePlan, the unsuccessful contender. Is that the case?

Mr Hutchinson—There were two phases. There were post-bid negotiations with both parties. Then we sought the government's concurrence to proceed with further post-bid negotiations with one party only. After that concurrence was given, we reached a satisfactory outcome—as we then thought—with Macquarie Bank and therefore did not carry out further negotiations with LeasePlan.

CHAIRMAN—Was that based on advice by Barings?

Mr Hutchinson—It was based on advice by Barings and the assessment within the office.

CHAIRMAN—I want to go back to this risk thing before we forget it. Could ANAO comment on Mr Hutchinson's explanation of risk assessment? Do you think it is proper that only the overall contract risk to the Commonwealth needs to be examined rather than any individual elements of competing tenders?

Mr Cronin—There are a number of phases. On 26 May 1997 bids closed. On 9 June OASITO placed before the minister their view on who should be the bidder to proceed forward with. That was based on advice they received from their legal advisers and their business adviser. In terms of this, this advice was silent on the Reserve Bank weighting. There was no mention in that advice of the Reserve Bank weighting. In the advice provided to the minister on 30 June there was mention that there had been no change to the arrangements. It is in the period from 9 June through to 30 June which would change the advice that had previously been provided. In the advice to 30 June to the minister, there was mention in their briefing of Barings letter which was attached to the submission that there had been arrangements put in place to manage the financing risks that arose from the RBA. We understand there was no actual quantification of that risk nor was there any approach to the RBA in that period.

CHAIRMAN—But I am asking a philosophical question, if you will.

Mr Cronin—It is such a material event you would—

CHAIRMAN—Do you accept Mr Hutchinson's statement that it is proper in terms of risk management and risk assessment to look at the overall risk as a result of the contract rather than any individual elements within it?

Mr McPhee—We would accept the basic proposition. At the end of the day you take a global perspective and there are trade-offs on particular elements. We would accept that.

Mr COX—But I assume you would go through the elements and make relevant judgments about them.

Mr McPhee—We go through the details.

Mr TANNER—Mr Hutchinson, just to return to the post-bid negotiations, you indicated that you received bids. There were post-bid negotiations with two parties, Macquarie and LeasePlan.

Mr Hutchinson—I have just been reminded in fact that there was a third player in that process.

Mr TANNER—There were three?

Mr Hutchinson—Yes. There were post-bid discussions on negotiations with three before we proceeded.

Mr TANNER—I will not ask you about the third player. The Auditor-General has indicated that the NPV value for the Macquarie bid was $116 million over six years and the LeasePlan bid was $110 million over six years. Perhaps the Auditor-General's office may wish to answer it, but was that an assessment based on the initial bids or the revised bids? Were the bids revised? Was that assessment based on revised bids or initial bids?

Mr Hutchinson—I suspect this might be one where Mr Cronin has more encyclopedic knowledge of what we did than we do.

Mr Cronin—There were two assessments made of the bids—one on 9 June and one on 30 June. There were small fluctuations. Macquarie Bank moved its benchmark rate from 35 basis points to 45. But, essentially, they remained unchanged. The second place bidder's bid remained stationary as of 9 June in the analysis. The Macquarie Bank bid that came back was changed marginally.

Mr TANNER—So in other words the only change that occurred in the post-bid negotiation process was that, from the point of view of the Commonwealth, the Macquarie bid deteriorated.

Mr Cronin—There are two phases of post-bid dealings. The first phase is 26 May through to 9 June. Then there is the phase where it is only with Macquarie from 9 June through to 30 June.

Mr TANNER—I am talking about the earlier phase.

Mr Cronin—The phase was unchanged. It was 35, but it was in the period from 9 June to 30 June that Macquarie put another 10 basis points on the bid.

Mr TANNER—Is it true to say that the only change in bids from either of those two parties, Macquarie and LeasePlan, occurred after LeasePlan were no longer contenders and OASITO was negotiating only with Macquarie?

Mr Cronin—Yes, that is true, but it is very small movement.

Mr TANNER—The magnitude of the movement is neither here nor there. What I am querying is whether there really was a post-bid negotiation.

Mr Hutchinson—I want to clarify that because I think the committee might end up with an incomplete picture from that exchange. The first phase of negotiations was clarification of terms and conditions. The second phase of the negotiation did involve a shift of 10 basis

points in one of the financial indicators. That was part of a negotiation in which the Commonwealth sought to adjust the risk in the transaction as it fell between the Commonwealth and Macquarie Bank. The judgment was taken during that process that the Commonwealth would be better off paying more by way of the 10 basis points and accepting less risk. These are the sorts of changes that often take place in these negotiations.

Mr COX—So is the NPV of the 10 basis points?

Mr Hutchinson—I do not have that figure.

Mr COX—Can you give that to us?

Mr Hutchinson—If we can find it, we will.

Mr TANNER—Is it correct to say that the only change that occurred in post bid negotiations that were occurring while LeasePlan's bid was still alive consisted of clarification of terms and conditions and that the basic elements of the bid in each case did not change?

Mr Hutchinson—No, that is not correct. LeasePlan's bid was alive until we accepted Macquarie's bid. In the second stage where we were negotiating only with Macquarie, LeasePlan's bid remained alive. During that second period, terms and conditions changed and this 10 basis points risk adjustment change was made. I am now told that we do not have a precise figure on the present value of those 10 basis points, but it is less than $1 million.

Mr TANNER—I will rephrase the question. Did the LeasePlan bid change in any material respect after its initial bid with respect to price?

Mr Hutchinson—No, and I would add that Macquarie's did not either.

Mr TANNER—I thought you told us that it went up from 35 to 45 basis points.

Mr Hutchinson—That had a present value effect of less than $1 million, and it was offset by some shift in the risk. Therefore, in a material sense, I would argue that it did not change Macquarie Bank other than to the advantage of the Commonwealth.

Mr COX—What was the risk?

Mr Hutchinson—The largest one was that Macquarie assumed all the risk on the vehicles that DASFLEET leases to non-Commonwealth public account clients. A proposed minimum utilisation fee was waived. They were the two large elements of the risk that was shifted.

Mr TANNER—Essentially, you have those two things, plus the change in the basis points from 35 to 45?

Mr Hutchinson—Those two things offset by the change in the basis points. They got the basis points; we got the shift in risk.

Mr TANNER—I understand the nature of the change. Was there any tender evaluation committee involved in this process?

Mr Hutchinson—The tender evaluation was undertaken by advisers and officers working as a group. There was no tender evaluation committee formally constituted. Functionally, there is no material difference between the way in which the individuals worked as a tender evaluation group and the way it would have been, had they been formally constituted as a committee.

Mr TANNER—Why were the cars with the Australian Protection Service added to the process after the final bids had been received?

Mr Hutchinson—They were always there. The problem is that, for a long part of the process, the only people who knew they were there were DASFLEET and the people who operated the vehicles. The existence of these vehicles was not revealed to the sale process at an appropriate stage in the sale preparation.

Mr COX—How did that happen?

Mr Hutchinson—Inadequate due diligence by the business.

Mr TANNER—By DASFLEET?

Mr Hutchinson—Yes.

Mr COX—So the due diligence was done by DASFLEET, not by OASITO?

Mr Hutchinson—OASITO manages a due diligence process that relies on sign-offs by the parties which are providing the information. All we can do is ask questions, probe answers and attain sign-offs as to the completeness of the information. That was done. The information was verified to be complete, and this particular small group of vehicles was omitted. Whether it was material or not is—

Mr COX—DASFLEET forgot to tell you?

Mr Hutchinson—That is my understanding.

Mr COX—How many vehicles were there?

Mr Hutchinson—We are talking here about these things that we refer to as the armoured vehicles. It is not the total vehicle fleet run by Protective Services; it is the subset.

Mr TANNER—So it is the unusual ones?

Mr Hutchinson—Yes, it is the armoured vehicles. We have bids of 11 and 16 from our advisers.

Mr TANNER—So DASFLEET still have not worked it out?

Mr Hutchinson—It is in that range. The bid for 16 was more persuasive than the bid for 11.

Mr COX—Are these those ancient vehicles that were fitted out as bulletproof by the old government aircraft factory?

Mr Hutchinson—It is my understanding that that is the nature of them—whether they are the same vehicles or they are descendants of those vehicles. Certainly some were in storage rather than actually being used.

Mr COX—Just out of interest, can you get us an answer to that question?

Mr Hutchinson—Whether they were the government aircraft factory vehicles?

Mr COX—Yes.

Mr Hutchinson—We shall do our best.

Mr Thompson—One aspect is that, out of those vehicles, only four of them had an actual dollar value. All the rest of the 14 or so were fully depreciated. They were quite old vehicles, so there was only four that were considered to have any value.

Mr COX—They date back to the Fraser government, I suspect.

Mr Thompson—I suspect so. So it is not a huge amount, and there is not a huge amount of dollar value in those.

CHAIRMAN—One question that I need to ask for the secretariat. Dr Wright, can you tell us when DOFA first raised the issue of that protective security vehicle fleet with the office of outsourcing?

Mr Cronin—It is in the report. It is in paragraph 2.16 on page 32. They raised it in early June 1997 which was shortly after—we have absolute confirmation of that. Previous records within the old DAS were difficult for access because they had largely been restructured and merged with the new agency. There is a tremendous loss of corporate knowledge out of the old area.

Mr TANNER—So DASFLEET discovered their omission and advised you, 'We have these extra vehicles that we should have told you about.' Is that effectively what has happened?

Mr Hutchinson—My recollection of the incident—it was only 16 vehicles with a value of actually zero because we are not allowed to dispose of them, so it was therefore not a

material matter but rather more a matter of amusement—was that it was the managers of those vehicles who raised it, who suddenly woke up inside DAS and said, 'Hey, you have forgotten us. What are you going to do with us?'

Mr TANNER—On the question of the Reserve Bank, prior to the contract with Macquarie being signed, did anybody from OASITO or the business advisers speak to the Reserve Bank about the capital adequacy ratio question and whether or not this could have an impact on the contract that was about to be entered into?

Mr Hutchinson—The assessment of our advisers was that the capital adequacy risk weighting assumption that was in the contract was appropriate, and we were given advice that it was reasonable to proceed on the basis that the Reserve Bank would rule accordingly. But no approach was made to the Reserve Bank before we accepted the contract. The contract provided for a mechanism to be applied in the event that the Reserve Bank did not view the situation in the way our advisers thought they would. That had a range of alternatives, including calling off the sale.

Mr TANNER—I understand that a similar issue has arisen with the ACT government with a similar outcome. Prior to signing the contract with Macquarie, did OASITO or the business advisers have any discussions with the ACT government, any state government or any other party involved with that issue?

Mr Hutchinson—We have no recollection of any discussions with the ACT government. Our interests in the ACT government's transactions and in the state governments' transactions were that most of those were not parallels because most of those were sale and leaseback arrangements that allowed the state government, having tax exempt status, to arbitrage on Macquarie's tax paying status to take advantage of the Australian Taxation Office—a structure that we as the Commonwealth would not adopt. No, we did not look at that. I was not aware that there was a similar Reserve Bank weighting issue with the ACT transaction.

Mr TANNER—I understand that in our material OASITO is arguing that it does not sit in a direct reporting line between Barings, the business advisers, and the minister? Is this an accurate statement?

Mr Hutchinson—It is an accurate statement. When OASITO engages advisers on a transaction, it engages them as advisers to the Commonwealth, including to the minister. My minister makes a point of wanting to hear advice directly from the advisers, in addition to the advice he gets from OASITO. He does not wish to see the advice the advisers give OASITO being changed, varied or filtered by OASITO. We do, of course, comment on and advise on how that advice might be handled but we do not see ourselves as having the job of saying to advisers, 'No, you cannot put that advice up to John Fahey.'

Mr TANNER—So does that effectively mean that OASITO appoints the advisers and handles the contractual arrangements but that they report and are responsible directly to the minister?

Mr Hutchinson—We manage that relationship. But their advice is given for the benefit of the Commonwealth, and the minister obtains that advice directly, accompanied by our advice.

Mr TANNER—Do you see OASITO as having any responsibility to ensure that they perform their obligations competently?

Mr Hutchinson—Yes. To the extent of managing the contractual relationship but not to the extent—

Mr TANNER—Not filtering the advice—

Mr Hutchinson—of filtering the advice or of second-guessing their advice in areas where they have high level professional or technical expertise that we do not have.

Mr TANNER—Are there any legal proceedings against the business advisers being either contemplated or having been initiated?

Mr Hutchinson—They do not think so, and we do not either.

Mr COX—Who was leading the team from Barings?

Mr Hutchinson—Clay O'Brien.

Mr TANNER—I understand there is an internal review and that one person is or was working on it full time within DOFA—and maybe not within OASITO; I am not quite sure. Is that the case?

CHAIRMAN—Can we change that from internal to external? Our understanding is that Oxley Corporate Finance Limited was to do it and that the report was scheduled for completion in December 1998, and that was recommendation No. 5 in ANAO's audit?

Dr Wright—I believe it is recommendation No. 6. Yes, that review has been completed. It has only just been completed. We found that we needed to do more work than the initial look envisaged. So that has just been completed and will form part of the input to the arbitration process.

Mr TANNER—So you are still studying the review outcomes presumably; is that the case?

Dr Wright—Yes, it has only just been completed this week.

CHAIR—You cannot tell us anything about that report?

Dr Wright—No. It is key input to the arbitration process and to discuss components of it at this stage could prejudice the Commonwealth's case.

Mr TANNER—Where exactly is the dispute between the Commonwealth and Macquarie at? Can you give us some detail about the precise points that are actually in dispute?

Mr Hutchinson—This is complex. Procedurally there are two disputes. There is a dispute under the sale agreement, which is the one that OASITO sees as being its responsibility, in which Macquarie has appealed the completion accounts for the transaction. The completion accounts were prepared by the business and reviewed by the Audit Office. The completion accounts called for an adjustment payment on finalisation of some $6 million from Macquarie to the Commonwealth. Macquarie has disputed those accounts. We have reviewed their dispute, rejected it, and Macquarie has proceeded to arbitration.

Mr TANNER—Is that a dispute about the state of the vehicles?

Mr Hutchinson—It is a dispute about the technical preparation of the completion accounts that revolves around the way in which the completion accounts valued the vehicles.

There is a second dispute under the sale agreement, under the tied contract, which is the dispute that the Department of Finance and Administration is handling. This is a dispute which the Department of Finance and Administration has initiated against Macquarie concerning the management of the contract. I will not try to characterise the nature of that dispute. I will ask Dr Wright to come in and do that at the end.

Mr TANNER—Is it correct to say that, for the purposes of the matters we have been asking about and the concerns that have been raised by the Auditor-General, the first dispute is not particularly material to those matters?

Mr Hutchinson—I regard the amount of money at issue, which is the $6 million that we think they owe us and the some tens of millions of dollars that they are claiming we may owe them, as a material issue. But I don't think it is relevant to the issues that you have been discussing so far.

Mr TANNER—That is the point I am getting at. Various questions have been raised with respect to how OASITO and the advisers have handled these issues. As far as I am aware, no questions have been raised that are pertinent to that first dispute. I suppose the Deputy Auditor-General is probably the same?

Mr McPhee—Yes.

Mr Hutchinson—The only issue is the opening accounts and the completion accounts for the sale transactions. It is a technical accounting matter.

Mr TANNER—Perhaps if Dr Wright can explain—

Mr Hutchinson—Perhaps I will ask Dr Wright to deal with the substance of her dispute and I will deal with the process. The first dispute had proceeded to a draft arbitration agreement and was proceeding towards arbitration—fairly slowly—when the Department of Finance and Administration initiated its dispute. By pragmatic agreement with Macquarie we have now agreed to merge the two disputes, because there are complex relationships between

the two of them. To put the two disputes into a single arbitration hearing required the arbitrator to be varied and a few other things to be done. The arbitration agreement is now largely settled but not signed. The arbitrator is appointed and the arbitration is expected to proceed early in the new calendar year.

Mr TANNER—I take it from what you just said that the two disputes are not totally separate. There is some degree of interrelationship.

Mr Hutchinson—One of the issues that might be in dispute is whether in fact there is any relationship. There is scope for some relationship.

Mr TANNER—In other words, we should not totally ignore the issues in the first dispute if we want to get a proper view of the total issues that have been raised in the Auditor-General's report.

Mr Hutchinson—I have dealt with my part of the answer to your first question. I think Dr Wright needs to deal with the substance of the Department of Finance and Administration's dispute before you get a complete picture.

Dr Wright—The dispute that DOFA has with Macquarie Bank comes under the mantle of its role of monitoring body under the tied contract. We have lodged a dispute in relation to a whole range of aspects of data and methodologies which are associated with the tied contract. In our role as monitoring body we are required to look on a regular basis at information s that provided by DASFLEET to ensure that the contract is operating properly. That is the nature of the dispute. There are linkages because of the nature of the sale agreement to the way the tied contract operates. That is the reason we have joined the disputes. But it is very complicated. The nature of the dispute and the various aspects have been changing over recent times. Until we actually formally go into arbitration, the total nature of the disputes from both sides will not be settled.

Mr TANNER—Have you got a rough idea of when you would anticipate the arbitration process commencing?

Dr Wright—As Mr Hutchinson said, we would expect it would commence early in the new year, if not beforehand.

Mr TANNER—Are you in a position to be able to provide the committee with a written statement saying these are the points in dispute or you are still not sure what the fine detail of the points in dispute are?

Mr Hutchinson—It is my expectation that, subject to legal advice, we could provide the two parties' descriptions of their cases to the committee, but we would ask the committee to treat that as in camera pending the resolution of the arbitration.

Mr TANNER—I would appreciate that and I would have no objection to that qualification.

Mr Hutchinson—Dr Wright has reminded me that we really should afford Macquarie Bank the opportunity to comment on that intention before we did that.

CHAIRMAN—Can I clarify this issue? My advice is that I have the right to demand such advice from you and that you have a requirement to supply it. It would probably be wise if I were to ask you to supply it but gave you the opportunity to supply it in camera so that we did not put you at any risk. In any case, the committee will consider that in a private meeting yet to be held, and we will get back to you.

There are a couple of things we need to know for sure. I understand, Mr Hutchinson, that on the same day that this tied contract was signed, which was 1 September 1997, Macquarie Fleet Leasing entered into a subcontracting arrangement with Serco Group for the provision of certain tied fleet management arrangements for DASFLEET. How many commercial vehicle fleets were Serco managing worldwide, compared with LeasePlan?

Mr Hutchinson—We do not know. We do not have the information at our fingertips.

CHAIRMAN—My understanding is that they had no fleet management experience whatsoever. If that is true, were you aware during the evaluation of the tender that Macquarie Fleet Leasing intended to subcontract fleet management to a company with no experience?

Mr Hutchinson—I would have to go back to our documents to be sure what we knew that the time.

CHAIRMAN—We would appreciate your advice. In addition, I would like to know whether that was a factor and how it was weighted in terms of your evaluation of at least the two tenders that we are aware of. This next issue is complicated. Did you understand that the reserve account mechanism effectively transferred the risk from Macquarie Bank to the Commonwealth?

Mr Hutchinson—We understood clearly the way in which the reserve account mechanism operated and what the implications were for the Commonwealth's risk, and that the risk was transferred to the Commonwealth and that was accommodated in the overall leasing rights the Commonwealth paid. It was not simply a case of the Commonwealth accepting the risk for no benefit. The Commonwealth accepted the risk as part of a formularistic approach that gave the Commonwealth an overall advantage.

Mr TANNER—So is it clear that Macquarie in effect had title to the reserve account, that Macquarie owned the reserve account?

Mr Hutchinson—No; that is not my understanding of the reserve account. The reserve account is bound by the terms of the contract such that, if there is any positive balance in the reserve account at the end of the appropriate period, that positive balance accrues to the Commonwealth. If there is any negative balance in the reserve account, that negative balance accrues to Macquarie. The contract, as we understand it—and the arbitration gets into this region—works on the basis that the residual risk fees are managed in a way that aims for this account to be at zero balance at the termination.

CHAIRMAN—Is that your understanding, Mr Cronin?

Mr Cronin—It was our understanding based on advice provided to DOFA by Oxley Corporate Finance that they were expecting a positive balance in the account of some $10.8 million by October 2001. We have had an exchange of correspondence during the course of the audit, relating to the legal mechanism for accessing that and the events. Our legal advice was at variance with the advice that the Office of Asset Sales had received, which led us through to recommendation 6 in the report for a commercial assessment, which the Department of Finance has commented on and has just been completed.

CHAIRMAN—ANAO has made six recommendations and, in four of those, you have agreed with qualification. We have some difficulty understanding why you have qualified your response for such a high percentage of the recommendations.

Mr Hutchinson—It is about our batting average with the Australian National Audit Office.

CHAIRMAN—I was going to make that comment but I wanted to be sure that I was right. Now that you have said it, I will agree. You keep coming before this committee, and it does not please us, I can tell you, to have to keep asking you why you agree with qualifications—why you think you are so much better than they are, in effect.

Mr Hutchinson—That is not a characterisation that I would choose to put before the committee.

CHAIRMAN—I see. Then why do you keep agreeing or disagreeing with qualifications?

Mr Hutchinson—We very rarely disagree. We work very hard with the audit office in order to avoid disagreement and we think very hard before we register a disagreement. An agreement with qualification is almost invariably because we think the audit office is essentially correct but that their advice or recommendation is a bit impractical in some aspect. Therefore our qualifications usually have to do—and I am not referring to the specifics here, because I have to refresh my memory on them—with the practical application in the real world of the conceptually sound position that the ANAO takes in its recommendations.

CHAIRMAN—Mr McPhee, do we have a replication of this sort of problem with any other department?

Mr McPhee—I think that a review of our track record with other agencies would not show the high level of agreements with qualifications that we see with OASITO.

Mr TANNER—Mr Hutchinson, would you be prepared—and the chairman may have the power to require this anyway—to provide copies of correspondence between you, Macquarie, the business advisers and the Reserve Bank on the matters we have been dealing with today?

Mr Hutchinson—I can see no reason why that could not be provided to the committee. Clearly, I can see every reason why the committee can require it. I say again that it will be

appropriate for me to review that documentation and respond to the committee in terms of what is in it, that response being to provide it or provide advice to the committee before they pursue the request.

Mr TANNER—I think that is entirely helpful. Are you able to give us an assessment—in a sense I am returning to the chairman's very first question to you, or it might have been to the audit office—of the negative financial impact for the Commonwealth if the Macquarie position were to prevail? This is a hypothetical question, so that we get a notion of the magnitude of contract risk. The contract has been entered into by the Commonwealth with an expected outcome. Because of the dispute that now exists, there is a difference of expected outcome by Macquarie over here and by the Commonwealth over there. What I am after, if it is possible, is an estimate of the difference between those two, given that we have an arbitration process and there is every chance that the ultimate outcome may be somewhere between the two.

Mr Hutchinson—An arbitration process is not a mediation process—

Mr TANNER—I understand that and I indicated that there is a possibility of it.

Mr Hutchinson—We do have an order of magnitude for best and worse case figures. I have already indicated that the best case figure for the Commonwealth is of the order of $6 million further payment to us. The worst case figure is one that I would prefer not to place on the public record. Macquarie knows what our best case figure is, but we do not know that Macquarie shares our view as to what the worst case figure is, and so I would prefer not to put it on the public record.

CHAIRMAN—We will put that one in the same in camera basket.

Mr Hutchinson—I can let the committee know that it is in the tens of millions of dollars.

Mr TANNER—Where you have finance leases, I understand these should be recorded as debt in the Commonwealth's balance sheet for the budget. Are you able to tell me where in the budget I can find any record that these are treated as debt?

Dr Wright—Page 4-8 of budget paper No. 1—we have a copy here—has the information.

Mr TANNER—I have the budget papers. If required, I can follow that up subsequently. I understand that there was a clause in the contract precluding Macquarie from onselling or divesting itself of the business within six months. Is that correct? The Auditor-General is indicating that that is correct. That is correct, is it?

Mr Hutchinson—No. I think the provision you are referring to was not a restriction on Macquarie from doing something but was an obligation on Macquarie that, if they did something, they would have to pay the Commonwealth some money. The provision was that, if they sold the vehicle rentals business within six months, they would refund the proceeds of that sale to the Commonwealth.

Mr TANNER—What was the purpose of that provision?

Mr Hutchinson—It was an offer put on the table by Macquarie as part of their bid. It was not something that we sought. It was something that Macquarie put in to 'sweeten' their bid. We did not attach high weight to it in the assessment because the expectation of proceeds from that sale were not high. In the event, Macquarie did sell the business, but not within the six-month window. We did seek, during negotiation with Macquarie, to improve our position on that offer.

Mr TANNER—On the six-month period?

Mr Hutchinson—On the six-month period because, as you may observe, if we are to get all the proceeds if they are sold within the six months but none if they are sold outside the six months, the temptation for them to sell outside the six months is quite great. This was a matter on which Macquarie was immovable. It was a voluntary offer on their part as part of their bid. It was either all within six months, or none after that six months, or no offer at all. So it sat there having a very low probability of becoming proceeds to the Commonwealth, which turned out, in line with our expectations, as being zero proceeds to the Commonwealth.

Mr TANNER—Did they give any undertakings? As far as I know, they did not enter into any contractual obligations on that point, other than the six-month term that you have described. Did they give any verbal or informal undertakings as to how long they intended to conduct this business for?

Mr Hutchinson—They indicated to us at the outset that it was their intention to seek to dispose of the business. They then indicated to us that that intention had changed as part of their strategy and that, in any case, their negotiations with the intending acquirer had broken down. Then later outside of the window of six months, Macquarie again changed tack on that matter and concluded a sale.

Mr TANNER—During the negotiations, did you feel that any weight attached to this question? Did you feel that it was important that the people with whom you were negotiating ended up being the people who fulfilled the contract, or did you think it did not matter if they onsold the business?

Mr Hutchinson—It did not matter to the Commonwealth whether they onsold the business because, with or without the onselling of the business, in our assessment the Macquarie bid was still the preferred one. Clearly, had they onsold the business within the six months and we had got the additional proceeds, we would have been better off. When they did eventually onsell the business outside of the six months, we certainly pursued the matter to ensure that the timing was not a sham to avoid remitting the proceeds to us. We investigated that to the point where we were satisfied as to the outcome.

Mr TANNER—With respect to the vehicles concerned, I understand that the Reserve Bank's final decision was that vehicles the subject of leases to expire prior to 1 September 2002 were the subject of finance leases, and vehicles the subject of leases to expire after 1 September 2002 were the subject of operating leases. Is that a correct statement?

Mr Hutchinson—That is my understanding. I think that is a reasonable interpretation of the Reserve Bank's position. It is not exactly what they said. It is certainly the ANAO's interpretation of what they said, and it is not one that we would disagree with.

Mr TANNER—Do we have any idea, even a rough one, as to how many vehicles fit into each category?

Mr Hutchinson—The issue to note is that the change date relates to the expiry of the five-year tied contract. At that stage, the agencies that are engaged in operating leases are free to go and take those operating leases from any competitor. So that is a significant change in the contractual arrangements; it is a further liberalisation of the arrangement. What hangs on that? I do not know that anything material hangs on that.

Mr TANNER—At the moment the new owner of the business owns X number of cars that are being used by various Commonwealth agencies. Do we have any idea what proportion, what percentage of those vehicles—and this could be in numbers, in value terms or even indicative percentage terms—are deemed to be based on finance leases as opposed to operating leases?

Mr Hutchinson—This really hangs around how many of the present vehicle leases to the Commonwealth expire before or after the five-year term.

Dr Wright—Because leases on average are over a two-year period, we cannot predict that far into the future in giving you a precise number; it is just not possible.

Mr Hutchinson—Of the current leases, very few go past that period, though; is that right?

Dr Wright—I do not know that really.

Mr TANNER—My instinct tells me that the vast bulk would still be finance leases because of the date you have just pointed out.

Mr Hutchinson—Most leases are for two years, and we are now approaching a period in which vehicles leased in the foreseeable future will expire past that date—but we do not seem to have the numbers before us.

Mr TANNER—Would it be possible for you to have a brief look at that subsequently? If there is any additional information on that, it would be useful.

Dr Wright—We will take that on notice.

Mr TANNER—Is there a residual risk fee now being paid on leases that do extend beyond the date of the tied contract? Is the Commonwealth now paying a higher fee on those leases?

Dr Wright—All new vehicles will have a residual risk fee applied to them, but not the tombstone fleet, the original fleet.

Mr TANNER—The tombstone fleet?

Mr Hutchinson—Tombstone vehicles are the vehicles that were in the fleet at the day we sold the business.

Mr COX—When you calculated or negotiated the residual risk fee, did you take into account the effect that the GST would have in reducing residual values of vehicles?

Mr Hutchinson—The residual risk fee is calculated with reference to a contractually certain formula. My understanding is that that formula was struck and the contract was signed before the 1998 election and, therefore, before the GST became announced as government policy in that election. Therefore, it is a pre-GST contract.

Senator GIBSON—Mr Hutchinson, in the audit report, pages 49 on to 55, there is discussion of financial risk. I suppose the key issue coming from that is the argument that went on with the Reserve Bank about the risk weighting. ANAO recommendation No. 5 recommended that you get written sign-offs from relevant Commonwealth bodies. Your office agreed with that—in other words, negotiations with the RBA about risk weighting. This was done two years ago. Since then, have you been involved in negotiations with RBA with regard to risk weighting in any other projects?

Mr Hutchinson—We have not had any projects that we have negotiated with the RBA on. I do not immediately recall any projects which we would have had cause to negotiate with the RBA on. In the course of presenting this matter to the RBA, it was disclosed to us that in the five years preceding this they had had no similar approaches from any party, commercial or government.

Senator GIBSON—So you are really describing this sort of thing happening as a rare event.

Mr Hutchinson—I accept fully the Audit Office's view that, before we entered into this transaction, we should have approached the RBA to secure their view. However—and this is all hypothetical—the attitude of the RBA, when we approached them afterwards, was that they would not normally have welcomed an approach beforehand and they do not like to give ex ante opinions of the sort we would have sought.

Mr TANNER—They are like the High Court: they do not give advisory opinions.

Mr Hutchinson—Nonetheless, I take the Audit Office's point. It is the RBA's position to decide whether they will respond. We nonetheless should have asked and been told to go away, rather than to have just assumed we would not be responded to and not approached them.

Mr COX—After a couple of state bank failures, they try not to give any advice at all.

Mr TANNER—Is it the Commonwealth's position that, if the reserve account ends up in surplus, that surplus accrues to the Commonwealth?

Mr Hutchinson—There are some procedural requirements to be met, but at the right time, yes.

Mr TANNER—Does Macquarie say, 'No, if the reserve account is in surplus at the conclusion of the contract, we get the money'?

Mr Hutchinson—There is no dispute, to my knowledge, about how the balances of account are disposed of. There is still some disagreement about what the disposal balance date is.

Mr TANNER—So, in your view, if the projection by Oxley of a $10.8 million surplus in the reserve account eventuates, Macquarie would accept that that $10.8 million, or whatever the figure might be, belongs to the Commonwealth.

Mr Hutchinson—I have just been warned off this line of questioning out of camera because it is getting very close to some of the issues that will be heard by the arbitrator.

Mr TANNER—Can I rephrase it in a slightly less intrusive way: is the question of who gets any surplus arising from the reserve account in dispute in any way between the Commonwealth and Macquarie?

Mr Hutchinson—I believe there is a risk that some aspects of the dispute would affect the distribution of that surplus but not of a deficit. But this would largely hang around the date at which that surplus was to be measured.

CHAIRMAN—Are you aware of any other mechanism in the commercial world that operates in the same way that that reserve account does? Does it represent industry practice?

Mr Hutchinson—My advisers tell me that the arrangement is not uncommon in complex financial transactions of this sort. That is their view for the commercial sector.

CHAIRMAN—I asked this question of the ANAO earlier and I would like to ask it of you also—and it is directed to Dr Wright. It relates to the lease that applies to my vehicle, which falls under all of this. I understand that my account for that vehicle pays a penalty if the vehicle travels more than 40,000 kilometres; it also attracts a penalty if I trade the vehicle in before two years. So I am placed in a catch-22 situation: I am going to pay a penalty no matter what happens because it is impossible for me to travel only 40,000 kilometres and keep the vehicle two years—unless I leave it in the garage.

Mr TANNER—Use public transport, Bob.

CHAIRMAN—I would have thought that does not make a whole lot of sense.

Dr Wright—So what specific question are you asking?

CHAIRMAN—Is that normal leasing practice? Is that good value for the Commonwealth? In fact, you know that I am going to hit 40,000 kilometres way before two years, because I always have.

Mr Hutchinson—If you have a practice of reaching 40,000 kilometres before two years expires, there are option leases. For some of my officers who hit 40 kilometres very early, we take out 12- or 18-month leases.

CHAIRMAN—Sorry?

Mr Hutchinson—There are 12-month and 18-month leases and different lease packages available to suit the patterns of individuals.

CHAIRMAN—Then why did mine get purchased on 24 months and 40,000 kilometres when that has never happened—ever?

Dr Wright—That would be a matter for the person who actually entered into the lease for you.

CHAIRMAN—I assume that would be somebody in your department.

Dr Wright—No, because we only have responsibility from a whole of government perspective. We would need to get details of what was requested of the area within DOFA that handles matters for senators and members. I would not know what initial request was put in and whether any options were investigated at the time. So, if you want us to investigate that further, we can certainly do so.

CHAIRMAN—I do, because it seems to me to be patently senseless. I cannot understand where the value is to the Commonwealth in signing a lease based on penalty at 40,000 kilometres or two years, when records would prove that that will never happen.

Mr TANNER—Perhaps you could argue that it is a discount for going under 40,000 kilometres; it might be the other way around.

CHAIRMAN—In fact, as it turns out, with the last two vehicles, were tried to trade them in at 40,000 kilometres. But Holden could not supply a vehicle, so we went way over and we paid the penalty anyway. But we still did not hit 24 months.

Dr Wright—There is, however, a difference in looking at individual leases and looking at value for money from a whole of government perspective.

CHAIRMAN—I understand that. But, as well as receiving an answer about the individual circumstance, I would like some response in writing to the whole of government perspective.

Dr Wright—We can have a look at that, however it is not industry practice to make all their commercial details available.

CHAIRMAN—I think the committee would like to know whether we are getting value for money, Dr Wright.

Dr Wright—I would just correct one thing for the record: the tombstone fleet has no residual risk fee. New vehicles on lease after sale date have a residual risk fee of $20. Any change in the residual risk fee will only apply to new leases entered into after the date of the change.

Mr TANNER—I have quite a substantial number of additional questions I wanted to ask particularly of the Audit Office. I am not sure what the procedure is to move that we adjourn consideration, but I think that would be appropriate.

CHAIRMAN—If we want to come back to consider some issue further, we will do so at a private meeting. It is not proper for us to consider it in a public meeting. I thank all officers for their attendance. We would appreciate prompt answers to our questions. We will deliberate on whether or not we require further information, as discussed on the public record this morning. Thank you very much. This concludes consideration of audit report No. 25.

[11.31 a.m.]

DANIEL, Mr Graham Lewis, FBT National Leader, Australian Taxation Office

McPHEE, Mr Ian, Deputy Auditor-General, Australian National Audit Office

ROSE, Mrs Jo-Ann, Director, Revenue Branch, Performance Audit Office, Australian National Audit Office

WHITE, Mr Peter Frank, Executive Director, Performance Audit Office, Australian National Audit Office

MILLER, Mr Geoff, Assistant Commissioner, Small Business, Australian Taxation Office

WICKERSON, Dr John, Assistant Commissioner, Strategic Management Branch, Large Business and International, Australian Taxation Office

CHAIRMAN—We now come to audit report No. 34, the second audit report to be examined in today's public hearing. I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. The audit report being considered in this session is *Audit Report No. 34, 1998-99: Fringe Benefits Tax*.

I welcome the witnesses. From the committee's perspective, the main purpose of this session is to examine the key issues identified in audit report No. 34 on fringe benefits tax to discover what action has been taken or is planned by the Australian Taxation Office to address issues raised in the report. The committee wishes to examine ATO's profiling of its client base, FBT compliance and related equity issues in the ATO's education of taxpayers and tax agents. I would like to provide an opportunity for a brief opening address from the ATO and the Australian National Audit Office. Mr Daniel, would you have a brief opening statement?

Mr Daniel—Thank you for the opportunity to talk to you. The Auditor-General's report on fringe benefits tax, FBT, and his recommendations were accepted by the ATO. Action surrounding some of the recommendations had been planned prior to his report, and all have either been fully implemented or are in the process of implementation.

There is no doubt that taxpayers find the fringe benefits tax assessment act and associated legislation complex. They also find it costly to comply with, mainly because of the record keeping requirements. Small businesses find these requirements particularly onerous. On the other hand, there is the cost of compliance report, produced for the ATO in 1997 by the University of New South Wales. This report indicated that the relative cost of compliance for FBT compared with other taxes is perhaps not quite so high as perceived by many taxpayers. Nevertheless, it is still significant.

An explanation for this inconsistency may lie in market research undertaken on behalf of the ATO last year. This research indicates that many people question the legitimacy of FBT, with many not even recognising it as part of the overall taxing regime of the Commonwealth. Basically, people do not see FBT collected being spent on roads, schools or hospitals, like other taxes. I do not wish to play down the cost of compliance or the complexity of the legislation, but more to set the scene for the difficult environment facing the ATO in trying to communicate with and to educate the community.

CHAIRMAN—Without being rude, would you mind if we agree to incorporate your statement in *Hansard*?

Mr Daniel—Certainly.

CHAIRMAN—Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The document read as follows—

CHAIRMAN—Mr McPhee, do you have a brief opening statement?

Mr McPhee—I do, but I would be happy to have it incorporated into *Hansard*.

CHAIRMAN—Thank you very much. Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The document read as follows—

CHAIRMAN—I address this question to anybody from the ATO. We have been living with FBT for 13 years now. Why are you only now profiling the client base?

Mr Daniel—A lot of work has been done before. A lot of it has not been pulled together as well as it should have been. FBT is structured in a different way now from how it has been structured in the past. We have gone through a number of restructures. It has been in a number of different business lines. I cannot go through the whole history of FBT with you. I am only a newcomer to FBT—I have been with FBT for the last two years.

CHAIRMAN—I can go through the history with you quite well, because I was paying it for a substantial portion of that time. In fact, it played a very big part in my winding up in federal parliament. That is another long story. The audit report talks about, and you accept, the fact that small businesses do not always recognise that they have a tax liability called fringe benefits tax. Have you done any research to find out why that is and whether there are any sectors of the small business community to which that generally applies?

Mr Daniel—We have. External research was done for us last year. As I mentioned earlier, a lot of that is around the legitimacy of FBT. People do not regard it as a legitimate tax, which is a problem for us. Also, a lot of tax agents do not fully understand it—and this is in the ANAO report. Our research shows that a lot of them are not confident that they are getting it right. So we have problems both with the community and with the people who advise that community.

CHAIRMAN—Part of my question was: is there some particular segment of the marketplace? We understand from ANAO that larger companies, corporate entities, and taxpayers have a high compliance rate and that the majority of your poor compliance comes from small businesses, not even medium sized businesses. Is that true?

Mr Daniel—That is correct.

CHAIRMAN—If that is true, have you analysed—within the small business sector—where the problem is or whether it is across small businesses? In other words, is it a shopkeeper? Is it individual subcontractors in building construction? Is it corner dress shops?

Mr Daniel—We have done some research—the research last year. We have more research by the same researcher under way at the moment. The first research shows that large businesses find it easier to comply with because their advisers are much better informed. They have the big six. It comes back to some of these smaller tax agents still not appreciating FBT. When I talk to them—and I have meetings with these groups of tax agents—the say that the clients do not have the money to pay for the advice that they need on FBT. That is our preliminary finding. We are doing further market research right now to try to get down to the groups to find out how they get their information and to see whether we can plug into it. I suspect there might be other avenues besides tax agents.

Mr COX—Do you think that is going to be a wider problem when the GST comes in? Do you think there will be a large group of people who will not be able to afford the sort of advice they need to set up the systems they need to keep track of the paperwork?

Mr Daniel—On the GST itself?

Mr COX—Yes.

Mr Daniel—I could not comment on that.

Mr COX—How much money are you spending on advertising to make people understand why they have an FBT liability?

Mr Daniel—I do not have the figures on that. It is not a substantial amount. It would come to about $100,000 a year or $150,000 a year. Compared with the market, it is a relatively small number, and that is part of our problem. We have about 64,000 active FBT players.

Mr COX—There are a whole lot of GST ads running at the moment which seem to be directed at small business people who, from what you have said, are people who have trouble complying with the FBT. Our understanding is that the government intends to spend tens of millions of dollars directing information towards those people. It seems that you are acting at a bit of a disadvantage in this area.

Mr Daniel—I guess our problem is that, in trying to target the whole market, we do not get the message to the people who we really need to get the message to. Part of the current research is to try to break the groups down who are having problems and to find out about them and how they get their information so we can better target our information products to those people.

Mr COX—I think the Chairman alluded to this, but are there particular industry sectors which are worse?

Mr Daniel—I believe that the very small businesses probably are not complying at all, but the amount of tax involved is not that great. Obviously, the larger the business is the better it can afford advice.

Senator GIBSON—I want to move to compliance costs. The ANAO report gives reference to the ATAX report that you commissioned in November 1997. There is a table on page 30 of the compliance costs. It seems to me that there has not been anywhere near enough information about compliance costs and hard numbers like that distributed amongst the community. Is the tax office aware of that? There is a fair bit of ignorance around in the community. People talk about high compliance costs and hard numbers like that, and I had previously been aware of that particular report anyway, but a lot of people are not.

Mr Daniel—I do not believe they are either. I agree. There are perhaps some problems with that report also. You may not be aware that we have what we call compliant non-lodgers. These are people who provide fringe benefits but take out employee contributions so there is in fact no FBT liability. So there is record keeping and the revenue is represented somewhere else. It is not FBT, because that money that they collect is assessable under income tax. When you look at the cost of compliance report, this is not taken into account.

Senator GIBSON—How big a slice is that? You have numbers in here of $3.3 billion for FBT collection. Do you have any idea of the numbers involved?

Mr Daniel—I cannot give you a figure on that because it was only last year that the information was requested and we are getting the statistics now, that a label was put on the company partnership and trust returns to capture that information. It could well be a fairly sizeable percentage of our population who in fact take out employee contributions.

Senator GIBSON—Can you give us advice—not today—of some rough figures?

Mr Daniel—Preliminary figures are that there is 20,000. I suspect the figure is higher than that in reality because a lot of people just did not fill out that block in the return form. But 20,000 did. I have not got any statistics on it. We are analysing it at the moment. If the committee wanted to, we could give you those figures once we have the analysis.

Senator GIBSON—I would be interested in seeing that. Thank you.

Ms GILLARD—Focusing on the question of education, I note in the opening statement that has been incorporated in *Hansard* that you talk about some tax changes which are afoot now, one of which is the listing on employee group certificates fringe benefits. Is there any educative strategy to advise the employees who are going to notice a change in their group certificate what that could mean for them, because I think for large numbers of people it might come as a bit of a shock?

Mr Daniel—Yes, I am concerned about that. The problem for us is getting to the employees directly. We do not have a list of them. It does not appear anywhere that an employee is getting a benefit so we cannot do a mail-out. We have had an extensive campaign with employers advising them that they need to talk to their employees and they also need to establish methods of allocation if there are shared benefits. We do have a fact sheet for employees, but of course they need to identify themselves and come to us. We have another sheet about to be produced going further than this fact sheet and giving details of the impact of the various levies and charges like the superannuation guarantee and what happens under those circumstances. We will be seeking to let employers know that this is available. We will have copies to give to their employees if they want them. Some employers have already approached us and we have given them the earlier fact sheet.

Ms GILLARD—It is likely in terms of compliance with that requirement that you are going to get the same divide where government and large employers comply and then you get a lot of non-compliance in the small business end presumably because of lack of knowledge, to take the charitable view.

Mr Daniel—I guess the non-compliance will be with the employers who are really non-complying at the moment. With the ones who are complying, we have had an extensive campaign with them. They know what the requirements are. We have also worked with payroll software providers and given them extensive information so that they get that out to their clients. They also have information there for their employees in the publications.

Ms GILLARD—I guess the concern I have is that normally non-compliance in the taxation area means that there is a problem for the Commonwealth if you do not get revenues that you otherwise would have. Non-compliance in this area means that employees who are really in an identical income position, because they work for different employers—one employer complying with putting the listing on the group certificate and one employer not complying—could end up with different entitlements such as Centrelink benefits which work off income or different obligations in terms of child support because one employer is declared and another employer is not. So it is not just the Commonwealth which is experiencing a disadvantage, but there could be horizontal inequity between employees just because of the nature of their employer and the compliance level.

Mr Daniel—That is correct.

Ms GILLARD—In your opening statement you say that a broader range of enforcement tools would enhance the comprehensiveness of the ATO's FBT enforcement strategy and thereby facilitate the appropriate treatment of identified risks. Could you give us more details of that reference?

Mr Daniel—It is in the ANAO statement.

Ms GILLARD—Sorry, it is too.

Mr Daniel—So you wanted more details of the enforcement strategies?

Ms GILLARD—There is a suggestion there that a broader range of enforcement strategies would be more effective. If that is a suggestion from the ANAO, I should be asking them what precisely they had in mind.

Mr Daniel—Yes.

Mrs Rose—At the time of the audit FBT teams were conducting full audits and also record keeping review type audits where they would help the taxpayer make sure that they had a full understanding of what the record keeping requirements were as opposed to a full audit going back a couple of years and everything else. Something that seems to be working in the cash economy teams is real time reviews where they go into, say, a restaurant and sit in the restaurant and make sure that they are recording everything they are meant to record over a fairly extended period.

We feel that that is something that could be adapted to work in the FBT environment also where FBT auditors could go in and have a look at how they are currently keeping their records and give them some advice on how they could be doing it better while they are doing it for the current year as opposed to checking up that they have done it right in the past. That will help them get it right in the present and future and hopefully change it for the future. That was something that was accepted by the ATO.

Mr Daniel—I can comment further on that. For this current year that we are in now, we have five projects planned around those types of activities. It probably answers more of what you asked before, too, because we are looking to employers to test what they are doing

about the reportable fringe benefit measure by seeing whether they know about, what they are doing about it, whether they have advised their employees and how they got the information in the first place so we are better able to use those channels in the future. We have two projects around that and we have some other projects with tax agents all around real time reviews.

Senator GIBSON—You mentioned before working with software groups that are doing payroll. I would have thought that with the ANTS package and the implementation of GST, a lot of small businesses will be pushed over the line to adopt better record keeping and better accounting systems in order for us to know where the hell they are with regard to GST obligations. Are you working with the software houses, like MYOB and Quicken, that put out little accounting packages basically aimed at small business so they can actually do their own accounts and have FBT signals in there?

Mr Daniel—I really cannot comment on what the GST are doing. It is unknown to me. I personally did meet with MYOB and a lot of the other large payroll software providers, but I am not sure what GST are doing. Our tax reform business education unit are aware that we had those contacts as part of the ANTS measure. I can only assume that they are following through with this in the GST.

Senator GIBSON—It is something that is perhaps worth following through. It seemed to me that there will be a lot of small businesses that go online with proper record keeping for the first time.

Mr Daniel—I will mention your suggestion to our tax reform unit.

Senator GIBSON—Thank you.

CHAIRMAN—What extent do you think the application of the Australian business number will have to this issue?

Mr Daniel—Of identification?

CHAIRMAN—Yes.

Mr Miller—Perhaps I could speak on that. I helped put some of the Australian business number legislation together. The Australian business number is going to allow the ATO, taxpayers and other government departments to communicate a lot better in all levels of business and government. We were just talking there about finding the good channels of communication to various levels of business. The Australian business number allows us to properly identify who the businesses are, where they live and what their postal addresses are even better than our tax file number. Better communication between us and any level of business is going to make our job of educating, helping and guiding them a lot better. There will be some flow-on effects to FBT from that.

CHAIRMAN—What are the implications for a small business not registering? I say ‘small business’ because I cannot imagine a big business not doing it.

Mr Miller—There are lots of implications if they do not. I would have thought that most small businesses will register. They will need an Australian business number. Effectively, they need an Australian business number if they are to participate in the GST system. If that business is interacting with other businesses, it would be unlikely that they would not have an Australian business number, because the people they interact with will want to claim GST credits. It would be bad for their business if other businesses stopped interacting with them. In other cases, if you do not have an Australian business number, there are other implications in the area of whether there is going to be withholding tax taken out of payments made for your services.

There are a whole lot of things that could happen if you do not have an Australian business number. However, if you do not need to have an Australian business number—and, in some cases, people will not need to have it; they may not need to participate in the GST system—from a tax point of view, that is not a problem either. They still have their tax file number. For our purposes, identification through the tax file number for all their tax purposes is quite satisfactory. If we do not have a small business on the Australian business register, it just makes it more difficult from that communication point of view for us to communicate in a much more efficient way with businesses.

CHAIRMAN—As an example, let us take a bed and breakfast operation. A mother and father have a house. They have a couple of extra bedrooms they do not need. They put a sign up out front saying 'Bed and Breakfast'. A decent swag of their receipts are in cash. They buy the food and supplies they need at Coles or Woolworths. They turn over less than $50,000 a year, so there is no legal requirement for them to take out an ABN. They then compete with the legitimate bed and breakfast places, restaurants and hotels. How do you even find out that they exist? Let us say that they decide not to pay any income tax, too.

Mr Miller—That is an existing problem. If someone decides not to declare their income tax, and is not even registered for a tax file number, that is a problem well beyond just the Australian business number.

Mr COX—That will not be solved by the GST, will it?

Mr Miller—I am not in a position to go into what the GST will or will not do in that area, because I do not know.

CHAIRMAN—What benefits do you think will be provided by the information in the labels under partnership, companies and trust income tax return forms?

Mr Daniel—These are the employee contributions I mentioned earlier?

CHAIRMAN—Yes.

Mr Daniel—This is just the fact that an employer might be receiving employee contributions. They are not actually lodging an FBT return but they are part of the community that we need to be communicating with. We cannot identify them at this point in time so we need to provide them with brochures on FBT, et cetera, to make sure they are getting the calculations right.

CHAIRMAN—The audit report noted that sole traders who fill out the income tax return form for individuals will not be providing any information to the ATO in relation to FBT because there will be no label on their tax return. How will you get a complete picture of compliant non-lodgers?

Mr Daniel—That factor needs to the addressed. I think it was a matter of timing as to what was required for the return forms at that time.

CHAIRMAN—To what extent are all the changes that are going to occur next July with respect to business tax, and ones that we have not even heard about, going to impact on your ability to successfully respond to the recommendations in this audit report?

Mr Daniel—I am confident we will have all of those implemented by then. Some of them are already fully implemented at this time.

Mr COX—With the alienation of personal services income being, I think, on the increase, is FBT compliance a large issue in that area and therefore a growing issue?

Mr Daniel—With people who are actively using salary packages?

Mr COX—With people who are turning themselves into companies.

Mr Daniel—I do not believe it is any more so than currently. We do have salary packagers, and that is what I thought you were getting to, in the market place.

Mr COX—No, not salary packagers, people who are turning themselves into companies rather than being employees—for example, subcontractors in the building industry and things like that—so that they can start to turn things that are personal expenses into business expenses. Is there a compliance problem in that area?

Mr Daniel—I do not have the figures with me, and I am not aware of any increase. That has been going on for years, people incorporating.

Mr COX—The number of people incorporating is increasing. I am trying to find out whether that is an area of risk for FBT compliance.

Mr Daniel—All I can say there is that last year we sent out FBT information to over 21,000 new registrants. I have just been informed that there is an alienation project and that one of the things they are looking at is FBT. If you want more information, we can get back to you.

Mr COX—Yes, I would like some more.

CHAIRMAN—In terms of enforcement, is there anything you can do to enable employer FBT returns to be reconciled with employer group certificates?

Mr Daniel—That is not possible on a macro basis. We are getting statistics from the next year's FBT return and there is a label there to indicate how much of the FBT liability—

or the amount it is being assessed on—is to be compared with the amount shown on group certificates. The two will not be the same because not everything that an employer pays FBT on is actually sheeted home to an employee. But, on individual basis, we would be able to go along and do that reconciliation.

CHAIRMAN—The audit report states that there have been very few prosecutions on fringe benefits tax and that those breaches which have been prosecuted related to non-lodgment offences. Is that a direct outcome of the complexity of fringe benefits tax?

Mr Daniel—I can only comment on the last two years but we have the compliance model, which is mentioned in the report, and we look very much to the behaviour of taxpayers as to why they have not complied with the legislation. It is only in the high noncompliance, deliberate noncompliance areas that we would seek to prosecute. In other words, we feel the remedy is education and 'get it right next time'.

CHAIRMAN—Does the ATO have any further comments that they wish to make?

Mr White—No.

CHAIRMAN—Thank you. We wish you luck in improving compliance.

Proceedings suspended from 12.02 p.m. to 2.17 p.m.

GREENSLADE, Mr Alan, Executive Director, Australian National Audit Office

KELSHIKER, Ms Medha, Senior Director, Australian National Audit Office

McPHEE, Mr Ian, Deputy Auditor-General, Australian National Audit Office

BEDLINGTON, Ms Jennifer Jane, First Assistant Secretary, Refugee and Humanitarian Division, Department of Immigration and Multicultural Affairs

GODWIN, Ms Philippa, Assistant Secretary, Humanitarian Branch, Department of Immigration and Multicultural Affairs

HUGHES, Mr Peter Gerard, First Assistant Secretary, Multicultural Affairs and Citizenship Division, Department of Immigration and Multicultural Affairs

PAGE, Mr David Julian, Assistant Secretary, Settlement, Department of Immigration and Multicultural Affairs

CHAIRMAN—This afternoon we will be taking evidence on Audit Report No. 29 1998-99: *Provision of migrant settlement services by DIMA* and Audit Report No. 42 1998-99: *The establishment and administration of Green Corps*. I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by *Hansard* and will attract parliamentary privilege. I refer any members of the press who are present to a committee statement about the broadcasting of proceedings. In particular, I draw the media's attention to the need to report fairly and accurately the proceedings of the committee. Copies of the committee statement are available from the secretariat.

I welcome representatives from the Australian National Audit Office and representatives from the Department of Immigration and Multicultural Affairs to this afternoon's hearing. From the committee's perspective the main purpose of this session is to examine some of the key issues identified in Audit Report No. 29. The issues the committee will pursue are DIMA's strategic management, performance information framework and implementation of audit recommendations in relation to grants administration, the migrant resource centre scheme and humanitarian settlement. With that background, I would like to provide an opportunity for brief opening statements from DIMA and ANAO. Mr Hughes, do you have a brief opening statement?

Mr Hughes—As the committee is aware, the department administers a range of settlement services to assist migrants and refugees in achieving early and equitable participation in Australian society. Within a framework we have developed, called the National Integrated Settlement Strategy, the key programs that we administer to achieve that outcome are funding of organisations through the Community Settlement Services Scheme, funding of migrant resource centres, funding of the Adult Migrant English Program, the Translating and Interpreting Service, the Integrated Humanitarian Settlement Strategy—that,

amongst other things, includes the Community Refugee Settlement Scheme and arrangements for on-arrival accommodation.

Many of these programs are very longstanding and part of the success story of settling migrants in Australia over the past 50 years. In administering them, the department aims to achieve the best possible outcomes for migrants, with particular priority being given to refugee and humanitarian entrants.

In its Audit Report No. 29 the ANAO examined these activities, apart from the AMEP and TIS. The report made recommendations—as you mentioned, Mr Chairman—directed toward improving our processes for planning, performance reporting and management of individual components of our services. The department has accepted all of the 12 recommendations. The department values its close corporation with the ANAO across the range of audits it performs, and this one was certainly no exception. This audit in particular provided us with some valuable pointers as to how we should revise our practices as part of the shift to the output-outcome based budgeting system.

Since the audit, the transition to the output-outcome budgeting system has taken place. The settlement activities examined by ANAO under the old program structure now come under DIMA's outcome two, which is:

. a society which values Australian citizenship, appreciates cultural diversity, and enables migrants to participate equitably.

The department is progressively implementing the ANAO recommendations. In some cases this is fairly straightforward; in other cases it involves putting in place a series of building blocks that will in time take us to the end point envisaged by the report. I can run through briefly what we have done in relation to each recommendation—with your indulgence—or the committee could commence questioning.

CHAIRMAN—I think we will probably get to that in questions, if you do not mind. Mr McPhee, do you have a brief opening statement?

Mr McPhee—I do. It is based on the audit report. If the committee is happy for me to table it, I will do so.

CHAIRMAN—Is it the wish of the committee that Mr McPhee's opening statement be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The opening statement read as follows—

CHAIRMAN—Mr Hughes, the Minister for Immigration and Multicultural Affairs stated that the government is committed to ensuring that the objectives of the migrant and humanitarian entry programs are reflected in early and effective settlement of migrants and refugees. The audit noted that DIMA did not have a consistent and precise definition of settlement. When do you consider that refugees or migrants have been settled?

Mr Hughes—That is an argument that has been going on for at least 50 years, as to when settlement starts and finishes, and I do not know that there has been any totally satisfactory agreement on that. There is fair agreement that some of the indicators of settlement for migrants at the early stages are such things as employment, housing, citizenship, and participation in the education system, in the political system and in community activities. But, equally, there is a view that aspects of settlement might in some cases persist throughout the migrant's life and that even a person who has come to Australia and has been here for 20 or 30 years might still face problems that might be termed 'settlement' problems.

CHAIRMAN—Such as?

Mr Hughes—People who are non-English speakers and who have acquired English in their early years in Australia and have spent time in the work force and who subsequently leave the work force and retire may, for example, lose some of that English capacity and depend on their original, native, language. It can be regarded that in their ageing period that is still a migrant settlement problem.

Mr GEORGIOU—Is 'settlement' a misnomer?

Mr Hughes—It is a word that has been used for 50 years.

Mr GEORGIOU—Almost 50 years, yes.

Mr Hughes—Whether it is a misnomer on not is open to wide debate, but it has been used by governments and administrators over that period of 50 years.

CHAIRMAN—If you have been trying to come to a definition for 50 years, don't you think it is about time that you reached some resolution of this problem in order to be able to determine whether you are effectively meeting your program objectives?

Mr Hughes—I think we do have a reasonably good definition for the early years. I am just saying that there is debate about the later years and whether the kinds of issues that can occur in the later years of a migrant's life and affect some of them can be regarded as a settlement on not. Some would say yes and some, no.

CHAIRMAN—Do you mean to say that I should probably start worrying about whether I have been adequately settled?

Mr Hughes—I do not think so.

Mr GEORGIOU—You have undergone linguistic regression, Bob.

CHAIRMAN—My 30th anniversary has arrived, so need I start worrying about that, Mr Hughes?

Mr Hughes—Mr Chairman, I think I detect that you are from an English-speaking background—or a close relative of an English-speaking background.

CHAIRMAN—Some people say that I do not speak English.

Ms Bedlington—I might add something. Government could determine what we think settlement might mean but it is, after all, to a great extent a subjective thing on the part of the migrant or the refugee. Because someone else believes that if you have a job and stable housing or whatever the criteria might be does not mean that there may not be some aspect of a feeling of the sense of belonging—of something that is incredibly difficult to measure—which would mean that no-one would ever agree with the government's definition.

Mr COX—The issue from a financial perspective is whether it affects the migrant's entitlement to assistance. Is it really in a problem at that level?

Mr Hughes—The priorities of all governments over the past 50 years have been for migrants who are more newly arrived, but not to the exclusion of those who have been here for much longer periods and are still in need of services. The way that the issue has sorted itself out in practical terms is that the priority and weight of services is for more recently arrived migrants, and there is a lesser provision for people who have been here for many years.

Mr GEORGIOU—Mr Hughes, one of the problems that the report raises is that the subprogram definitions are pretty precise and the subprogram practice does not match them. Why can't we resolve the issue by getting a better definition of what services are being provided, rather than having to resort to the experience of longstanding practice and actually say, 'Yes, but we also do that'? I am speaking specifically about the subprogram that covers the grants, which—as you know—I have some interest in.

Mr Hughes—That subprogram has been abolished. It has been overtaken by the output based resource management structure, so that particular subprogram title no longer appears.

Mr GEORGIOU—What has it been supplanted by?

Mr Hughes—It has been supplanted by the general objective in the outcome, which is a society which values Australian citizenship, appreciates cultural diversity and enables migrants to participate equitably. That is outcome 2. Within that, one of the departmental outputs is settlement services. The particular wording that the audit report focused on in the subprogram objective does not exist as a program objective.

Mr GEORGIOU—So now there is no conflict between funding agencies for long arrived communities under that program description? One of the concerns that Audit had was that you have a focus on newly arrived migrants and lots of funding of non-newly arrived migrants. I regard that as totally legitimate and proper, and there should be more of it. But in your view has the problem now been resolved?

Mr Hughes—I think it has been in the sense that with the benefit of hindsight, with that old program objective—and that is now history—it would have been solved merely by having the word 'particularly' in front of 'newly arrived migrants'. But the wheel has moved on anyway and we do not use that terminology, so that problem does not rise. As I mentioned before, when we talk about criteria for grants et cetera we do have a list of priorities, which includes newly emerged communities. But there is nothing that excludes the particular needs of communities or individuals who have been here many years.

Mr GEORGIOU—I appreciate the resource constraints. On resource constraints, the Audit Office notes that you can save of the order of $500,000 on the accommodation program. Has that money been saved?

Ms Godwin—The reference in the report to a saving of up to $500,000 was a suggestion of what might be possible. We have accepted the recommendation of the report that there is more that we can do in managing on-arrival accommodation. But one of the points that the report did touch on, which we would like to stress here, is that there is a significant difficulty in managing on-arrival accommodation because of the ebb and flow and peaks and troughs in visa grant and the point at which people arrive. To some extent the existence of a stock of housing that sits there and is not always fully utilised by residents is somewhat reflective of that peak and flow.

We are doing two things in particular about that. One is that we have a project going on in my branch where we are looking at the management of visa grants at the overseas posts and the work that we do with the International Organisation of Migration, who assist us in the transport arrangements for refugees, to see whether we can flatten out the visa grant process and also the arrival process so that there is a more steady arrival pattern. With that we could therefore match the arrivals better to the capacity we have in on-arrival accommodation as it currently exists.

The other thing that we are doing in the context of the redevelopment of the way in which we manage humanitarian settlement services is looking for more flexible ways of managing the accommodation support requirement of refugees and humanitarian entrants to try to, I guess, respond more to the natural ebbs and flows in the visa grant and arrival processes.

Mr GEORGIOU—But that is not where Audit focused. Audit focused on the management of people and accommodation when they arrived, not controlling the overseas element. It did say that there were quite different performances, different criteria, different occupancy rates and—I stress again—different policies in terms of the overstayers. My understanding is that Audit said that—and Audit can correct me—through a better management of your program in Australia there was a $500,000 potential saving. I do appreciate that Immigration is under a lots of pressure for lots of funding, and in the context of some of the things that you are under pressure on $500,000 seems like quite a lot. Are you saying that that is not going to be saved, or that nothing is going to be saved?

Ms Godwin—No; I am saying that the assessment of $500,000 was just that—an assessment. The capacity to save it and to manage it depends a lot on numbers of arrivals and the pattern of arrivals. We have done quite a lot of work with our state offices to

reinforce a more consistent policy about eligibility for accommodation, the periods in which people should be staying in on-arrival accommodation, the assistance that they should be getting to move out of on-arrival accommodation and, in that process, to better utilise the available accommodation.

Mr GEORGIOU—Is New South Wales still operating a different policy to the other states in defining overstayers who stay beyond 26 weeks rather than 13?

Ms Bedlington—What we have to recognise is that on-arrival accommodation operates in very different housing markets around Australia. For example, it is very easy to move somebody out of on-arrival accommodation quickly in places like Adelaide and relatively very much more difficult in Sydney. I would not characterise it as a different policy, but a recognition of the fact that the environment within which that initial accommodation is provided and the capacity of everyone with their best efforts of moving people into stable, appropriate and affordable accommodation post on-arrival accommodation varies hugely between the capital cities. It is more a recognition of that fact than it is a different policy per se.

Mr GEORGIOU—I will pursue that with Audit. Audit said that New South Wales was operating a different policy in relation to overstayers, interpreting overstayers as those who stay beyond a 26-week period of initial stay. Is that a policy or a practice? Did Immigration take this up with you when you made that observation?

Mr Greenslade—It is the case that New South Wales was interpreting overstayers as those who had been there after 26 weeks. That was what was happening in New South Wales.

Mr GEORGIOU—I am confused: is it policy, just the practice or just reflected differently? What are the different consequences of this 'approach'—if you do not like it being called a policy?

Ms Bedlington—It is a little hard to work out which is the best end of the question to come at it from. As Ms Godwin said, there is a fundamental rigidity in a way of providing initial accommodation which is reliant on stock. State housing authorities have come to the same view that, once you have a physical stock of dwellings, the flow of tenants through that is always problematic. We outlined the fact that the things that have contributed to the difficulties in managing the flow—the matching of capacity to tenants—have actually been the visa grant and visa arrival processes. That is actually one way of managing the very issue that was being referred to in the audit report.

Mr GEORGIOU—This says, 'The problem was managing it here.'

Ms Bedlington—Yes.

Mr GEORGIOU—They did not say, 'Use trade point overseas.' They said, 'Manage it here.'

Ms Bedlington—I guess my contention would be that one of the major difficulties with managing it here is actually the input, that is, the people. The second point I would make is that to some extent we did not differentiate between whether it is a policy or a practice. In overall terms, the length of time people were expected to be in on-arrival accommodation is stated as a national starting point. The fact that housing markets differ very considerably means that in practice it is a waste of resources to carry on with people in New South Wales who are there longer than in Adelaide, when you know perfectly well that the reason they are there is not lack of effort on the part of departmental staff, or the lack of willingness of the tenant, it is actually about the housing market. In terms of sensibly using resources, that is where the 26-week trigger is. It is like an exception trigger. After that time, on average you would have expected people to have moved on.

Mr GEORGIOU—The only difficulty I have—and I appreciate your point about New South Wales—is that the average stay is, as I understand it, highest in Victoria, not New South Wales.

Ms Bedlington—Melbourne does have the same sorts of problems in relation to affordable housing.

Mr GEORGIOU—It is not exactly on the same level as New South Wales, which was the point of your using that example.

Ms Bedlington—Yes. That is the most extreme of the examples, yes. The other point that I would like to make in this context is that, although audit used the word 'saving', in practice it would not have been a cash saving. Money had been appropriated for on-arrival accommodation. There are plenty of people within the refugee case load who would have liked to have had access to on-arrival accommodation. It is not provided to every entrant. The week here or the week there that will come from better management across all its aspects, would mean that more people would have access and that that access would be more equitably shared.

Mr GEORGIOU—It would be $500,000 more cost effective, is that the point?

Ms Bedlington—That is the point I am making.

Mr GEORGIOU—I do get concerned when there are different practices or policies being applied in different states. I am interested when one component of your organisation says, 'The reason why we have a better performance with overstayers is because we have better contacts with community organisations', as in the case of Queensland. I am also concerned that the departmental response is that they will look overseas to resolve the ups and downs of intakes, rather than actually focusing on getting their act together within Australia and the accommodation program.

Ms Bedlington—If that had been what we had been saying that we were solely looking at the input side of it, I would agree with you, but that was just one of the things that we have been addressing.

Ms Godwin—Perhaps I could pick up the point about Queensland and my reference to the changed arrangements in relation to humanitarian settlement services. One of the things that we are doing as we develop that is in fact being guided by that experience in Queensland. The ANAO report pointed to the fact that they believe in Queensland that one of the reasons they are more successful is because they have more clearly targeted the assistance people need to move beyond on-arrival accommodation out into community based housing. They actually need specific assistance to do that, and we are building that requirement into our redevelopment of the accommodation assistance component of the humanitarian settlement services.

CHAIRMAN—Audit has stated that the activity statement was largely a list of activities with associated responsibilities. Why did the statement not specify the program outcomes that it sought to realise, or the program measures that would be used to assess the achievement of those outcomes?

Mr Hughes—It should have, and under an outcome based resource management system that what we are working to in a much clearer fashion. In this year's parliamentary budget statement of the portfolio, we have set out a set of outcomes and performance indicators and we are working on supporting those with a detailed planning and measurement system that will back those up for this group of activities which come under outcome 2.

CHAIRMAN—So you still do not have a corporate plan?

Mr Hughes—That is a slightly different question. Since the audit, there a corporate business directions document was produced covering the period 1998 to 2000. In my own area, the multicultural affairs and citizenship division, we produced a business plan for that area. In the same time, of course, we are making a transition from one kind of system to a new system. We are making a transition from the old program based system, which the audit was looking at, to the outcome-output based system, which requires us to do exactly the kind of thing that the audit says.

CHAIRMAN—With respect, everybody has to do that. It is not something unique to your department.

Mr Hughes—Absolutely. I agree entirely. I am saying that in factual terms two new planning documents were produced since the audit. We are working on a third one that focuses a great deal more on both the outcomes and the performance measures that we will use to assess how well we are achieving those outcomes.

CHAIRMAN—Do you mind sending us copies of those?

Mr Hughes—That is fine.

CHAIRMAN—Do you now have in place settlement service business plans for the current year?

Mr Hughes—We have a multicultural affairs settlement and citizenship business plan in place for the current year, yes, and I can provide you with a copy of that.

Mr GEORGIOU—That now covers these programs?

Mr Hughes—Yes, it does.

CHAIRMAN—Yes, we would like a copy.

Ms GILLARD—I am interested in the oversight of migrant resource centres. There were some problems pointed to in terms of monitoring and some centres that have been defunded and whether action could have been taken more quickly. Has much happened on that front since the audit?

Mr Hughes—I will ask my colleague, Mr Page, to speak you about that.

Mr Page—The time frame in which the audit examined that was immediately after we had negotiated new service agreements with each MRC. So, the comments about the difficulties that we had had with defunding a couple of MRCs had been picked up and addressed in the new service agreements. I think the audit found that those agreements would significantly reduce the prospect that had occurred before.

Those agreements are annual and iterative, in the sense that there has to be continued evolution and development of them. It is a move which we are extending into the other grants area where service agreements, rather than the nature of the original application, are the performance measure both in the migrant resource centre context, and soon in the other grants process we will have work plans with milestones against which progressive payments will be made. With that sort of monitoring in place, the problems that you are referring to would have come to formal attention much earlier than in the instances that the audit was looking at.

Ms GILLARD—With the newly developed service agreements which will be further evolved, what monitoring takes place during the course of the year now?

Mr Page—I am saying that we have a service agreement with migrant resource centres. It is a generic agreement, but varies by work plan with each one. That requires the achievement of a particular milestone before the next progress payment is made. So, in that context there is a fairly strong desire on both sides to monitor performance and discuss potential problems before they become as difficult as some of the past ones were. I am saying that we are going to extend that work plan and milestone approach to the other sorts of community grants in the near future.

CHAIRMAN—Mr Hughes, recommendation No. 2 states:

> The ANAO recommends that DIMA implement a systematic approach to risk management for the provision of migrant settlement services, involving the assessment, analysis and treatment of risks and early identification of strategies to deal with and monitor performance against its risk based approach.

You agreed with that recommendation. Can you tell us where you are in terms of implementation?

Mr Hughes—The department as a whole is pursuing an across the portfolio assessment of risks to produce formal risk management plans. We are working on the kinds of risk management plans for settlement services that ANAO envisaged as part of that. They are not yet completed but we are making progress. I would add that, as we observed in the report, we think our existing approaches have a great deal of risk management embedded within them, but we still have yet to formalise it and document it in terms of a risk management plan in the way that the ANAO suggested that we should do and the way we have agreed to do.

CHAIRMAN—Does ANAO agree with the statement that Mr Hughes has made, that they really did have risk management in place but it was just not in the form that you wanted?

Mr McPhee—I think what the report is suggesting is a fairly structured analytical approach to risk management. I think what Peter Hughes is really referring to is managers assessing risks based on their experience and the circumstances at the time. We are asking for a bit more discipline in the process. The benefit of that is that it allows that risk assessment and the mitigation strategies to flow into business plans and operational plans so you get a flow through from the structured approach right through to your day-to-day planning. That is what we have asked for. I think what Peter Hughes is saying is that they are starting to pick that up. The only thing I would raise as an issue about this is: at this stage how do DIMA see the risk management plans linking to their other planning that they have in place because that is a critical element? The risk management plan should not be a stand alone document.

CHAIRMAN—Your report is dated 22 December 1998. When did you undertake this audit?

Ms Kelshiker—It was done in June.

CHAIRMAN—In June 1998.

Ms Kelshiker—Yes.

CHAIRMAN—Mr Hughes, you would have been aware of the audit recommendations before this report was printed because you would have discussed it with ANAO. Am I out of order in asking why it is taking so long to come up with a risk strategy?

Mr Hughes—No. I think the approach we took was that it was being done as a whole of department exercise. In other words, the audit report recommended that we ought to, as Mr McPhee said, manage our risks and document the management of our risks in a more analytical and systematic way. Equally, the department as a whole was taking that recommendation up, not out of this audit report per se but the department as a whole was developing a structure to do that. We wanted to move in parallel with the corporate approach, not necessarily in advance of it. That is why we have proceeded on the timetable that we have.

Mr Page—I think one of the specific risks the audit suggested we were running in grants was that community organisations or migrant resource centres with core funding may not achieve their objectives, and the service agreement framework that I referred to before is very specifically designed to reduce the risks. So part of the process will be to extract from the service agreements where we are attempting to minimise risk and separately list what those risks are in the departmental wide document. It is a bit of a chicken and egg question.

CHAIRMAN—Mr Hughes, you tell us that you have had in place for a long time a risk management strategy based on experience. Mr McPhee, representing the Auditor-General, has recommended that you need a formal systematic approach. You say, 'We are sort of doing it, but now we are going to do the entire department as an overall strategy rather than just do migrant settlement services.' It is now over 12 months since you have known you needed to do this. I still put to you that it seems to be taking an inordinate amount of time. Considering your earlier statement, are you resisting implementing the recommendation?

Mr Hughes—Certainly not, Mr Chairman. I do not think we are talking about a 12-month period; I think we are talking more like a six or seven-month period since the report has been finished. In that period we have had some unexpected demands on us in the sense of the decision to give safe haven to 4,000 Kosovars, which was an unexpected event which did consume a great deal of the resources of individuals who might have also been working on that risk management plan. I do not want to make an excuse per se, but we are committed to doing it. We have had some setbacks and diversions along the way but we remain committed to doing it.

Ms Bedlington—We would like to make it clear that perhaps what we are more talking about is the formal recording of inherent processes. For example, every time we go through a grants round process there is identification of the risk factors. In terms of the way the service agreements are structured, measures are put in place to manage that risk should it become real. The whole framework of identifying the risk, trying to remove the risk factor—if it happens despite that effort, managing the outcome of that is an inherent part of the way we do business. We are doing risk management. It is actually talking about the very formal recording—and I take Mr McPhee's point about the rigour of applying that sort of framework. But it is more about writing it all down in one place under the title of 'risk management plan' rather than putting forward the suggestion that we are not doing it, because we are.

Mr COX—What are the main risks with the grants round?

Mr Hughes—The kinds of risks—and I think some of them are mentioned in the ANAO's better practice guide—are that you might not give a grant to an organisation capable of administering it, you might give a grant to an organisation that then fails to fulfil the work plan that you want that does not achieve the outcome that you want, funds might be misappropriated in some way. There is a variety of risks in relation to a grants program. Some of those risks, for example, were ones that were mentioned in the audit report, and we think our processes both past ones and the ones we have introduced in more recent times are very much aimed at reducing those risks and managing those risks—for example, what Mr Page mentioned in terms of MRCs and payments in relation to milestone and community settlement services grant schemes and linking payments to those organisations to milestones

in a work plan. To me, they are an example of some of the risks and also the risk management practices we use, some of which have been recommended in the report, to minimise the risks.

Mr GEORGIOU—I can bring this to a point in terms of the intrinsic process of trying to deal with problems as distinct from a formal process. You had a formal contractual responsibility to meet with the on-arrival contractors once a month. Paragraph 5.18 states:

> Under the review and reporting arrangements of the contract, the contractor and the Department have to conduct joint evaluation meetings on a monthly basis in each State and on quarterly basis at a senior management level.

The subsequent notes are that this only occurred in Queensland and the department attributed this to something called a 'loss of corporate knowledge'. I think the ANAO is probably being a bit delicate in calling it a 'loss of corporate knowledge' because I cannot fathom what that could possibly mean. But here you have a formal contractual obligation—it has nothing to do with risk management—and you are required to do it but the department does not do it. How can a risk management plan possibly deal with that, Mr McPhee?

Mr McPhee—Obviously the proposed control of the meeting was a mitigation device or strategy to try to make sure the arrangements were working well.

Mr GEORGIOU—But if you do not have the meeting—

Mr McPhee—That is right. That is a step after in the sense that someone in the past, picking up Ms Bedlington's point earlier, would have recognised that this is an important control device to put in place to manage a particular risk. So that was a good thing that it has been recognised and the problem of course was, despite, as you say, the contractual condition, that it had lapsed. So there is a more specific issue dealing with contract management that the department would need to address there.

Mr GEORGIOU—Would you say it is more difficult breaching a contractual provision rather than breaching some notional risk management plan?

Mr McPhee—Generally speaking, the answer is yes.

CHAIRMAN—Mr McPhee, did you agree with Ms Bedlington?

Mr McPhee—I think we are acknowledging that, certainly in the public sector, up until a few years ago people used to risk manage based on their experience and events of the day.

CHAIRMAN—And they kept cash in jam tins instead of having chartered accounts.

Mr McPhee—That is right. We are improving our performance in the public sector day by day. It is something that we have picked up on and agencies generally speaking, following the MAB-MIAC work on risk management and the work on the formal risk management approach, are trying to get more discipline into their past practices. I think what we are seeing here is a changeover, if you like, from the historic approach to the more disciplined approach that is being promoted.

CHAIRMAN—Mr Hughes, the audit report states that there was no systematic process to monitor the monthly reports provided to DIMA's state and central office by the contractors providing services for OAA. What changes have you made to monitoring arrangements for the contractors' reports?

Mr Hughes—I will leave that to Ms Godwin.

Ms Godwin—It relates to the point that Mr Georgiou mentioned. We had a senior officer who had managed the contract in central office for a number years and was very familiar with it who left at short notice. New staff came in and were not as familiar with the contract. We have now reinstated the quarterly meetings with the contractor. Our state offices are observing the monthly meeting requirement with the contractor at the state level. In that context, there is even more regular contact with the contractor. There is, in effect, almost day-by-day work with the contractor on the actual mechanics of it, but they are having the formal meetings with the contractor and monitoring the reports that the contractor is providing. In effect, we have recognised, with the help of ANAO pointing it out to us, that we have been remiss in that area and we have actually reinstated those procedures.

CHAIRMAN—Are ANAO happy with that?

Mr Greenslade—That certainly addresses the deficiencies that we identified there.

Ms Godwin—The report picked up the more general issue of contract management support and training. We are also addressing that, both consistent with the recommendations of the ANAO and more generally as I mentioned before in the redesign of the humanitarian settlement services. We have redeveloped the contract management guidelines. They are in draft now. They will be finished and available for use by all of our state offices by the end of the year. We are also in the process of doing performance and learning agreements with all of the staff in the department. In that context, we have specifically asked supervisors and program managers to look at the contract management training requirements of all of the staff who work in the program, and we are simultaneously identifying specific courses that staff could undertake which will pick up the training aspects of the ANAO recommendations. All of that helps lead into the management of the redesigned program next year where we will be even more heavily involved in contract management.

Mr GEORGIOU—Going back to the on-arrival accommodation, are overstayers allowed to overstay because they are hardship cases?

Ms Godwin—I think there are two aspects I should mention. First of all, the initial eligibility is for 13 weeks at the moment under the current arrangements. It is anticipated that the majority of people will move in that 13-week period. If at the end of the 13 weeks somebody has not been able to move, they may seek authorisation to remain, in which case they remain, in effect, with authorisation and we would try to then work with them to help them find accommodation. That often relates to things like family composition. Large families often have more difficulty moving than smaller families. Sometimes people will simply stay and they have not got authorisation. In that case, we would look at their reasons for remaining and also work with them to see if we can help them to move. Generally speaking, yes, they are not overstayers if they are in hardship. The nature of the hardship I

think will vary, but it touches on the point that Ms Bedlington was making before—that is, some people find it harder to move than others because of their personal circumstances or the family composition and so forth.

Mr GEORGIOU—The eligibility for 13 weeks is treated as 26 weeks in New South Wales. Standard cases are 13 weeks and hardship cases are 26 weeks. New South Wales treats the 13 weeks as 26 weeks.

Ms Godwin—I am not sure if I am quite getting the point you are making.

Mr GEORGIOU—Either as policy or practice, New South Wales does not treat people as overstayers under 26 weeks whereas other states treat them as overstayers over 13 weeks. The point is: if there is not a case of hardship, then there is also provision for increasing rental payments, as I understand it.

Ms Godwin—That is true.

Mr GEORGIOU—The ANAO also found that even though overstayers may be required by the manager to pay rent at the market rate instead of the subsidised rate, the OAA manager could not recall this having happened. Reports from the contractor do not identify this. Does it happen where somebody is not in hardship and can pay the higher rate that the definition of 13 weeks or 26 weeks actually impacts on the income that DIMA makes from accommodation?

Ms Godwin—If you are asking me whether there are examples where the rent has gone up, I would have to take that on notice. I am not immediately able to give you an example.

Mr GEORGIOU—In my own oblique way, I am also trying to say that the 13-week as against the 26-week definition of overstaying is a bit pertinent as to how much the department can actually recover where there are no hardship instances. So it does become a matter of some significance. If it is not a matter of hardship, then presumably if overstaying was less prevalent then you could actually put other people into the accommodation.

Ms Bedlington—Our settlement staff, like staff everywhere, are under very considerable resource pressure.

Mr GEORGIOU—I appreciate that.

Ms Bedlington—I guess the best way of characterising the 13-26 weeks issue is that, in a sense, there is a general assumption in Sydney that if people can leave after 13 weeks that is great, but up to 26 weeks, given the state of the housing market, there is almost an assumption that those people will still be having difficulty, that is, therefore be in hardship. So it is like a determination of hardship on the part of the group perhaps.

Mr GEORGIOU—But there is also another point—and this is maybe the larger point—that, if you have rules and discretions, that leaves a lot of power in the hands of individual managers with a recourse that people cannot take. People might say, ‘We have 13. I don’t like 13. Let’s make it 26.’ I would just like some sort of standard which is actually enforced

in the case of certain specified objectives so that there is not a huge amount of administrative discretion available within the system and the discretions are actually limited by fairly well-defined rules rather than the sorts of things we find here. In Sydney, the market's heart, it is not a problem. Sydney is, say, a special case of 26 weeks, not as a matter of practice unsanctioned by formally revised guidelines. That is my point of view.

Ms Bedlington—I understand what you are saying.

Mr GEORGIOU—These people are new arrivals. They do not have a great deal of power or protection. One would think that there will be fairly systematised rights for them. I am sure it is all done in the best possible way, but I am sufficiently into rules to say that, if they are there, people at least know what their rights are.

Ms Bedlington—I think I can certainly say that the rules or practices have been exercised beneficently to the refugees. That would be the first point. The other point to make perhaps is that, over this period, not necessarily in direct response to the audit but as part of our taking a close look at on-arrival accommodation and its cost-effectiveness as we develop the new model, we have been doing ongoing analysis about the use of capacity. The fixed stock issue has been creating problems. We have been looking quite systematically at those issues. Indeed, it has informed our changes in the new service model.

CHAIRMAN—Thank you very much for coming to talk to us today.

[3.20 p.m.]

GRANT, Mr Peter, Deputy Secretary, Department of Education, Training and Youth Affairs

SANDISON, Mr Barry, Director, Programme Administration Section, Department of Education, Training and Youth Affairs

WHITE, Ms Lorraine, Assistant Secretary, Pathway Programmes Branch, Department of Education, Training and Youth Affairs

GOLIGHTLY, Ms Malisa, Executive Director, Australian National Audit Office

McPHEE, Mr Ian, Deputy Auditor-General, Australian National Audit Office

THURLEY, Ms Ann, Senior Director, Australian National Audit Office

CHAIRMAN—Welcome. We now come to the final audit report to be examined in today's public hearing. I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by *Hansard* and will attract parliamentary privilege. The audit report being considered in this session is Audit Report No. 42 1998-99: *The establishment and operation of Green Corps*.

From the committee's perspective, the main purpose of this section is to examine the key issues identified in Audit Report No. 42 on Green Corps and to discover what action has been taken or is planned by DETYA to address the issues raised in the report. The committee wishes to examine aspects of the tendering process and DETYA's contract management and performance monitoring. I would like to provide an opportunity for a brief opening address from DETYA and the ANAO. Mr Grant, do you wish to make a brief opening statement?

Mr Grant—I will make it brief, and thank you for the opportunity. We in DETYA found this to be a valuable audit. It examined in some detail the effectiveness and efficiency of the administrative arrangements which we had put in place in 1996 for the establishment and operation of the Green Corps program. The audit findings are important not only to the future operation of this particular program but more generally—as the ANAO notes in its report—to the growing number of programs and services now being delivered by third-party providers under contract with government departments and agencies.

We were pleased to see the many positive comments and findings in the ANAO report. Equally, there were some significant points of criticism and some constructive suggestions for change. The criticisms, we suggest, need to be set in context, having regard not only to the innovative features of this program but also to the circumstances in which it had to be implemented at short notice in 1996. That said—and this is the main message I want to give to the committee—we have not only accepted the findings of the ANAO report and the

recommendations in the report but, more importantly, we have heeded them and acted upon them. Since the release of this report earlier in the year, we have conducted a further tender process and let another contract for additional Green Corps projects over the next three years. In planning and executing those processes, we have had specific regard to the recommendations of the ANAO report, and we have significantly revised our previous arrangements in line with those recommendations.

I could go through the details of what we have done but, in the interests of time, I will not. I will just say that, in addition to the specific action we have taken in relation to this program, we have instituted stronger, more systematic procedures governing these issues of tender management, contract management, project management, management of relationships with third-party providers and risk management across the department more generally. We are happy to go to the details of that if you and the committee wish.

CHAIRMAN—Thank you. Mr McPhee, would you like to make a brief opening statement?

Mr McPhee—As indicated by Mr Grant, the department has responded very positively to the audit report. I do have an opening statement and, with your concurrence, Mr Chairman, I would like to incorporate that in the *Hansard* for the committee's benefit.

CHAIRMAN—Thank you. Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The document read as follows—

CHAIRMAN—The committee has noted that ANAO asked you for a comprehensive risk management plan. Can you tell us about what you have done in that respect in a little more detail, Mr Grant?

Mr Grant—Certainly. One of the findings of the report was to note the absence of a comprehensive risk management strategy in relation to the procedures that accompanied the 1996 tender process and the subsequent letting and management of the contract. Even though a comprehensive risk assessment and management strategy was not a formal requirement of the department at the time, we accept that it was less than adequate not to have such a plan and we have certainly formed our own view, consistent with the ANAO's, that we need to have much more systematic risk management strategies and procedures in the future. We have in fact in the formal sense adopted that now as a general departmental requirement for processes of this sort, and in the context of the recent tender process for the next round of Green Corps projects over the next three years we have developed and acted upon a comprehensive risk assessment and management strategy in relation to that project. My colleagues in particular could speak to the detail of this, and we would be happy, of course, to make a copy of this available to the committee if you so wish.

CHAIRMAN—I think we would like a copy. I do not think we need to go into the detail here this afternoon.

Mr Grant—Fine. But I can assure you that, both in this area in relation to the specific program and also more generally across the department, there has been significant attention paid to risk management at all levels of departmental operations. Perhaps I should take the opportunity to mention that this has also been emphasised in our departmental training strategy and we have had running for some 12 months or so now a comprehensive series of risk management training courses, along with training courses in contract management and project management. So far as the risk management courses are concerned, all SES officers of the department have been strongly encouraged to participate, and indeed have participated in those courses.

We have considered risks and the management of risks not only in relation to the operations of particular work units in the department and particular programs and services but quite recently we drew the results of those processes together and considered in our corporate leadership group, which is the senior management body in the department, the corporate assessment of the risks that emerged from those particular processes. So I can assure you and the committee that this has been a systematic and concerted effort on the part of the department to inject a much stronger focus on risk management across all that we do. It has certainly been applied, and in some detail, to the latest round of Green Corps projects and to the tender process and the contract management process surrounding the next three years of Green Corps operations. I would not suggest that the process is finished in any sense; this is an ongoing challenge, I think. But we have, as I say, heard and heeded the lessons of the ANAO audit in relation to this program.

CHAIRMAN—Would ANAO like to comment on whether what they are just heard sounds like what they asked for?

Mr McPhee—It sounds like what we asked for, in spades.

CHAIRMAN—Thank you for that. I think the committee would join with me in saying that it sounds like what the committee wants too. We are pleased with that. Could one or all of you tell us a bit about how you go about measuring outcomes of Green Corps in terms of the participants themselves, that is to say, whether at some time out from the project they have a full-time job, a part-time job or are in part- or full-time training? Secondly, do the projects themselves have an outcome which was a benefit to the community? Can I further ask—this is really getting complicated now—whether you have done any work at all in analysing whether the program is really cost-effective.

When I ask that, I know Ms Gillard would want me to ask you, when you say whether it has or has not been cost effective, whether that is just in terms of the environmental outcomes or is it in terms of the kids. Would the kids have got a job anyway, because they are pretty sharp kids? That is a long question—sorry about that, Mr Grant.

Mr Grant—Thank you for the question. I will do my best to answer it at a general level, but then I will ask my colleagues to elaborate as they wish. The three parts of your question go to participant outcomes, environmental or community outcomes more generally and cost effectiveness issues. All of these are important to us. None of them is entirely simple or straightforward to measure or to make judgments about, but it is fair to say that we are concerned with all of them and we do our best to collect information to measure the performance of this program against those criteria and to assess its performance and effectiveness against them.

Let me elaborate a little: in relation to participant outcomes, we are concerned with, and do collect information on, not only the backgrounds of participants to this program—bearing in mind that it is essentially a voluntary program, and that contrasts with some of the predecessor programs that have operated in this area—such as source information about where the participants come from and what they were doing beforehand, but also post-program information on exactly the sorts of measures that you refer to. For example, the proportion of participants who, in a certain period—I think it is three months—after the completion of the program, are engaged in full-time employment, undertaking further full-time education or training, or still unemployed.

CHAIRMAN—Can you provide us with those results?

Mr Grant—By all means. Broadly speaking, in the most recent set of data, and putting aside that relatively small subgroup of Green Corps trainees who proceed to other forms of government funded assistance, some 64 per cent of Green Corps participants three months after leaving their Green Corps placement were either in unsubsidised employment or education and training, typically of a full-time nature. Forty-three per cent of participants were in unsubsidised employment and 20 per cent of participants were in education or training courses. I assume the gap between the sum of 43 and 20 and 64 is simply a rounding issue. Whether that is a good result or a bad result is the important question.

CHAIRMAN—What about the rest?

Mr Grant—I do not have firm details, unless my colleagues can help me here. It is certainly not the case, I believe, that all the other 36 per cent are unemployed. I think they are engaged in a variety of other activities. I will come back to you on that issue, Chairman.

Ms GILLARD—You say 43 per cent in employment; do you have a breakdown between full-time and part-time?

Mr Grant—There are data on full-time and part-time employment. I believe somewhat over half of the 43 per cent in employment are employed on a full-time basis. Once again, it might be simplest if we provide to you separately the details supporting these figures, because there is quite copious detail.

CHAIRMAN—Thank you, we would be interested in that.

Mr Grant—Taking those results at face value, the issue is whether that is a good thing or a bad thing. One of the tests of that is to look at before and after patterns of activity on the part of participants. This was indeed done in the recent evaluation of the Green Corps program. There was a comparison between the activity profile of the participants shortly before they went into the program and the activity profile three months after the completion of the program. Pleasingly, there was a significant improvement in that activity profile in the aggregate. In other words, significantly more of these young people were in employment generally, and in full-time employment in particular. Significantly more were also in full-time education or training than was the case for this particular group of young people before they entered the program.

That in turn starts to go to your issue of cost effectiveness. You have to consider the extent to which that gain in outcomes is (a) attributable to the operation of this program rather than to the influence of other factors, for example, the effluxion of time, and (b) whether it is consistent with the costs that are injected into managing, operating and conducting this program. One of the measures of that is the views of the young people themselves about the skills they have obtained by dint of their participation in this program—their own views and feelings about the extent to which it has equipped them to, for example, compete more successfully in the youth labour market and to gain new skills which will provide them with the basis for going on to further education and training. We do tap, at least in a qualitative manner, those sorts of issues by way of our client satisfaction surveys and so on. Once again, details are given in the evaluation report, and we would be happy to share those with the committee.

As I recall, something like 85 per cent of Green Corps participants surveyed as part of the evaluation process expressed satisfaction—most of them a high degree of satisfaction—with the quality of the Green Corps experience and with the skills that they obtained through that Green Corps experience. That is not definitive, of course, but it is indicative.

Mr GEORGIOU—Can you be a Green Corps drop out?

Mr Grant—There certainly are Green Corps drop outs, and again there are facts and figures on that which we could provide to the committee if you wish.

CHAIRMAN—There are three programs in my electorate. The satisfaction rating is 100 per cent, so they tell me.

Mr Grant—Is that so? That is very pleasing. Unfortunately, it is not that way in every electorate.

Mr GEORGIOU—He has a very good electorate.

CHAIRMAN—The kids come from everywhere. Very few of them actually live in my electorate.

Mr GEORGIOU—I was joking.

Mr Grant—The 85 per cent is a weighted average, so there are some that are less good than that.

Mr GEORGIOU—Can we get a copy of that evaluation?

Mr Grant—By all means; we will provide that to the committee. The area of your question that I have not touched upon at all is the environmental outcomes. As part of the review of the way we administer and plan this program, we have developed new planning procedures, which my colleagues can speak to, designed to ensure that the processes of selecting projects for use as Green Corps projects do give due weight to environmental considerations. We recognise that this is something that we in DETYA are poorly placed, to be honest, to make judgment on. Therefore, we actively involve our colleagues in Environment Australia. Also, importantly, we have a new process. Please remind me of the nomenclature.

Mr Sandison—It is the Project Evaluation Panel—PEP—that we work through for every project.

Mr Grant—That essentially draws together parties at the community level, the local level and the state level with knowledge of the circumstances of the region in question, with particular knowledge of environmental issues to provide input to the process of assessing the quality of projects and rating the quality of projects. That input is then fed into the assessment of the projects and into the recommendations that eventually go to the Green Corps Advisory Committee before it makes its decisions. In that sense, I can assure you that we have given weight to the environmental factors and the wider community factors. There are also processes in our new performance management arrangements whereby there is direct reporting on those aspects of projects as a basis for post-hoc evaluation of how well the projects have actually done.

CHAIRMAN—I think that is what I was asking you—whether you measure the environmental outcome versus what you had set out to achieve when you established a Green Corps project.

Mr Grant—Yes, we do. Once again, there are some facts and figures about the number of kilometres of paths that have been cleared, weeds cleared and so on, but there is a

systematic process of reporting, and assessment of that reporting and comparison with the expectations that applied when the project was first set up.

CHAIRMAN—Thank you for a long answer to a very long question.

Mr Grant—Apologies.

Ms GILLARD—Following on from that, whilst the satisfaction of the participants is important, and knowing the outcomes three months after the conclusion of the program is important, it seems to me the problem with the measurement of these sorts of programs is that it is very difficult to get a reconciliation back to a control group—in other words, what the labour market, education and training outcomes would have been for people who present in this age profile with these labour market characteristics. Is there a possibility of that reconciliation back?

We would expect, in this age range, if they are not presenting with a particular labour market disadvantage—a fundamental literacy problem, learning problem or disability, or some form of acute labour market disadvantage—that you are going to see a fair bit of churning people through periods of part-time employment, full-time employment, unemployment, education and training, just by nature of the age cohort. I think it is difficult to separate out whether the intervention of Green Corps and its training aspects has made any difference to that pattern.

Something that on another parliamentary committee drives me crazy is that most of the time there seems to be follow-up at the three-month range but there are never any longitudinal studies to see whether the intervention has made a difference at the one-year range, the two-year range or whatever. So we do not know whether these programs are, if you like, picking up people and giving them, for a period, a labour market advantage—whether that is self-esteem, work habits, or whatever—which, if they fall into unemployment again, dissipates so that they need some other form of intervention or whether it is giving them a long-lasting advantage. If we knew the answer to that question that would assist us with the design of programs and assistance with measurements of cost effectiveness. Do you have any intention of doing more follow-ups than at three months?

Mr Grant—Thank you for your question. Let me comment on the three aspects of that. Firstly, there is an expectation—in fact, a requirement—in the contract for this program that, as far as possible, the young people chosen should be broadly representative of the age group. This is to guard against the possibility that there might be creaming of applicants simply to give this opportunity to those who are most easily catered for, let us say. In that regard, I notice that a significant proportion of these young people have been unemployed immediately before they come onto the program.

For example, 12 per cent—and I am using data for participants in rounds 1 to 12 of the Green Corps—of that cohort were immediately before they came onto the program long-term unemployed. Another 13 per cent had been unemployed for between six and 12 months and 33 per cent had been unemployed for less than six months—I trust that I am reading the figures correctly, and I believe I am—which means that well over half had been unemployed

before they came onto the program, and a significant number were unemployed for a considerable time.

So, firstly, it is not as though this is a carefully chosen group to make it easy to gain outcomes and so on. A good number but by no means all of the participants have had a significant period of labour market disadvantage. Therefore it is important to gauge, as you are suggesting, the difference that the intervention makes.

Mr GEORGIOU—What is the ratio of long-term unemployment in this age group? You have got 12 per cent: what is the ratio?

Mr Grant—In the age group generally?

Mr GEORGIOU—Yes.

Mr Grant—I would have to come back to you, Mr Georgiou, on that.

Mr GEORGIOU—That is fine.

Mr Grant—We are talking here about 12 per cent out of 58 per cent. I suspect that the long-term unemployed proportion among young unemployed people generally might be somewhat higher than that but I could not vouch for that. I would need to get the figures.

Your two methodological issues are both important. They are issues we as a department have grappled with and we have been quizzed at length by certain senators on the Senate estimates committee on exactly these matters. I would readily acknowledge, Ms Gillard, that the rigour of evaluation methodology would be stronger if there were to be a fully experimental control group with random assignment, for example, as between participants in the program and those who do not get access to the program so that the control group outcomes could be compared with the participant group outcomes and a much more direct judgment made about the impact of the program.

We as a department do not employ that rigorous experimental control group methodology. There are many reasons for that. I am not aware, to be honest, of any government department which does apply such a strict and rigorous experimental control group methodology. Partly the concern, I think, is that in order to make such an arrangement work one has to take a decision actively to deny a certain group of young people the opportunity to participate in a program. I know that certain other countries do adopt that sort of methodology in their valuation design. The US does so, I must say to my surprise, quite widely, and they report the results of their evaluations on exactly that basis.

Partly for the reason that I just mentioned, that we think it would be very difficult to deny the control group access to this program, we have opted for a different methodology that seeks to get to the same types of measure, but I would readily acknowledge in more a proxy fashion and less perfectly and rigorously. This is the so-called net impact methodology, which is along the lines that I mentioned to you before. It examines the activity profile of participants shortly before they enter into the program. It systematically monitors by similar survey instruments and so on the activity profile and the destinations of

the same group of young people for a certain period after the completion of the program and it makes the judgment—I readily accept that it is a judgment—that the difference is attributable, if not fully at least in large measure, to the intervention of the program. As I say, that is not perfect. It is subject to criticism and attack, but I think equally the strict experimental control group methodology would be potentially subject to other sources of criticism and attack.

Ms GILLARD—I am not advocating the strict control group methodology, but you could approximate that by at least a comparison back to Centrelink available data on people who have not done the project. We could at least get a comparison back to the generalised statistics, if you like, in the same way as Mr Georgiou just asked you what percentage of unemployed young people you expect to be long-term unemployed as compared with the participants in this program. It seems to me that it is not going to give you the complete picture, it is not going to be as good as a controlled trial, but there is some merit in comparing back to what is happening with people who have not gone on the program.

Mr Grant—I understand. We have in fact done that. To see whether we have done that with this particular program I would need to consult with our evaluation colleagues. They are not represented here today. If you wish, I will check that and let you know. We have used that matched control group—'matched' in terms of characteristics and so on—in various evaluations, and we have made judgments on that basis. We have not adopted the strict randomised control group and, to be honest, I do not see us adopting it in the near future.

Mr GEORGIOU—Could you provide us with those evaluations, please?

Mr Grant—Yes.

Ms GILLARD—If you do have that for this program.

Mr GEORGIOU—I am interested in things more generally.

Mr Grant—I will give you some examples. Some of them, I must say, go back to former labour market programs that this department is no longer responsible for.

Mr GEORGIOU—We are not proud.

Mr Grant—We will get you some examples of those, by all means. If I may, I will answer separately the particular question as to whether we have applied that matched sample control group type methodology for this program. I doubt that we have, but we may have, or we may be intending to in the future. I will let you know. There was one other element of Ms Gillard's question about the longitudinal study.

Ms GILLARD—You are entitled to say that we should stop mucking around with the programs and get a longitudinal study, but we do not have any.

Mr Grant—We do have one major longitudinal study which is, however, not program based. We do see longitudinal survey evidence as being very important. We spend a significant amount on a longitudinal survey of young people and have over many years now.

Our contractors for that purpose are the Australian Council for Educational Research, which tracks young people from the time they are about 14 years of age. It collects all sorts of information about performance at school, family background characteristics and so on and tracks these young people through until their mid-20s or, in some cases, until they are 30 or so.

We have a series of these longitudinal surveys which do the obvious thing—look at interactions between family background, educational achievement, subsequent destinations, earnings, income, satisfaction and so on. We have not extended that to individual programs. Typically, our methodology is to look at destinations on an admittedly short time frame after a program has been completed. The reason for that, in large measure, is a practical one. There are significant costs in actually tracking young people over time. The further out you go beyond program completion, the more likely it is that it is going to be difficult to track where people have gone.

In principle, I can readily take your point that one gets a more comprehensive picture and a better balanced picture if there is a tracking over time so that one can have some sense of the permanence or otherwise of beneficial program effects. I can only say that, while we have had a few studies in the past—not in this program—that have looked out over 12 months and maybe even a bit longer as well as the three-month snapshot, in most cases our post-program efforts are limited to the three-month point for the sorts of reasons I have mentioned. Again, I do not pretend that is perfect. I take the point of your question, but the value of information has to be balanced, and sometimes traded off, against costs and other considerations, including sample attrition and the like.

CHAIRMAN—Mr Grant, I do not want to be critical but, if we are going to get done, we are going to need dramatically shorter answers.

Mr Grant—My apologies, Mr Chairman.

Mr GEORGIOU—No, your answers have been very illuminating.

CHAIRMAN—But we are going to run out of time.

Mr GEORGIOU—Can I say that the department comes out comparatively well in this report, but there are a couple of things that struck me as curious. Why did you screw up on the provision of the criteria to the people bidding for the contract? I read it, and I said, 'How did they manage that?'

Mr Grant—I think, Mr Chairman, as I understand the history—and I should perhaps mention that none of us at the table was directly involved in that—

Mr GEORGIOU—No; they never are at the table.

Mr Grant—I apologise; that is not a defence.

Mr GEORGIOU—It is almost as good a defence—but, go for it.

Mr Grant—My understanding, however—and I think I mentioned it at the outset—is that this program was announced and implemented in 1996 at very short notice. It was in many ways our first exposure to a program of this kind, delivered in this form, with a single national contractor.

CHAIRMAN—It is like the cruise ship.

Mr GEORGIOU—Seriously, how did you manage not to give them the criteria?

Mr Grant—I think what happened was simply that a set of criteria was drawn up for the purposes of the RFT documentation. By the time the bids came in and the assessment process needed to get under way, there had been scope for more thinking about what the appropriate criteria would have been; therefore, while there was a lot of correspondence—we did not totally overhaul the assessment criteria—some additional criteria were introduced and some of the original criteria were either played down or not considered in the formal process. I think that is, largely, simply a function of the time and circumstances in which the process was actually conducted.

Mr GEORGIOU—So, basically, you developed your criteria of selection after you sent out the documentation.

Mr Grant—Exactly, but we do not defend that as good practice in any sense.

Mr GEORGIOU—I understand that. On the other hand, some tender conditions were actually sent out and then not evaluated.

Mr Grant—That is right, and there is exactly the same explanation, I believe.

Mr GEORGIOU—That is a bit hard if they were actually in the tender documents.

Mr Grant—I accept that the errors were in two directions: as I understand it, we added some criteria to the circulated list and we subtracted some. The explanations are essentially the same. Once again, I do not defend or excuse that.

Mr GEORGIOU—You do not have to; none of the people who did it are at the table.

Mr Grant—I am talking on behalf of the department and I can assure you that that set of deficiencies was rectified in the latest tender round.

Mr GEORGIOU—As I said, I read the report and thought that it seemed fine, and then a couple of things struck me as curious—for example, the cover of $10 million. The contractor said that they could not get personal accident cover of $10 million. I said to myself, 'You can get whatever you like.'

Ms White—The reason for that relates simply to a period after the portfolio changes when the employment part of DEWRSB and associated labour market programs went to DEWRSB.

Mr GEORGIOU—You have lost me.

Ms White—Legally, to provide that coverage, the provider needed coverage under a health regulation. Under the arrangements in place prior to the split of employment from the former DEETYA, that arrangement was covered. With the portfolio change, that arrangement was no longer available to us so we had to subsequently make a new regulation through the appropriate processes so that the provider could in fact take out that insurance. So it is a technical issue.

Mr GEORGIOU—You have lost me. I am sorry, but you really did.

Mr Sandison—There were two issues on insurance that were being explained. One of the issues has been rectified, and the other was just the sheer amount of liability cover we asked them to take out and then found that, no, they could not take out that amount of cover. It is on page 47 of the report.

Mr GEORGIOU—Is there a reason for this? I am operating under the simplistic assumption that you get whatever insurance you are willing to pay the premium for.

Ms Golightly—Basically, this was the contract compliance—

Mr GEORGIOU—I appreciate that. Your explanation was that such cover could not be provided and I said that that did not sound right.

Mr Sandison—The only justification we had in checking back through for this issue that was raised was purely from the contractor. Their formal legal advice was that the limit was $100,000. That is a surprise given that normally if you are willing to pay the money the higher levels of insurance coverage are available.

Mr GEORGIOU—That is what I am trying to get to.

Mr Sandison—I cannot answer what the current insurance cover is to see whether that has changed in the current contract, but we could find that out for you.

Mr GEORGIOU—The underlying point is that you had a contract that they should buy $10 million worth of insurance as personal insurance cover. They did not do it. They said, 'We can't buy more than $100,000' and you said, 'Oh, shucks,' and passed rapidly on. The point that I am trying to make is that you did not get what you contracted for and did not pursue it. I am puzzled in terms of contract enforcement, compliance or whatever you want to call it. You have a fairly important condition—which is $10 million worth of personal injury cover—and you do not get anything. Or am I missing something?

Mr Sandison—We would have to check the paperwork and the reasoning for the acceptance of the change.

Mr GEORGIOU—I agree with the chairman that they are fantastic programs.

CHAIRMAN—Can you request the Australian Trust for Conservation Volunteers to provide annual audited statements under the 1998 contract?

Ms White—Yes. We have in fact incorporated that requirement into the revised contract.

CHAIRMAN—Have you asked for any audited statements?

Ms White—So far?

CHAIRMAN—Yes.

Ms White—The new contract has only recently been finalised. We have not had an opportunity to ask for them as yet.

CHAIRMAN—Is the newest contract with the same contractor?

Mr Grant—It is.

CHAIRMAN—They are very good, aren't they?

Ms White—They are excellent.

CHAIRMAN—At least the three supervisors who I ran into in my three projects seemed excellent. The kids had nothing but a great deal of praise for them.

Mr Sandison—Because of the comments made through the report on the accounting and acquittal process, we actually to look to each round. There are five series of projects set up each year through the contractor. We now ask for report back and acquittal against each round because one of those findings was the delay in actually getting to a final point against the initial contract. We now pick it up and grade it through. About every 2½ months we ask for a formal reconciliation back against each round of projects.

CHAIRMAN—Audit are shaking their heads, so I guess they are happy with that.

Ms Golightly—That is what we were looking for; so that is good.

CHAIRMAN—Is it the wish of the committee that the Australian National Audit Office's submission No. 2: Outsourcing, dated 11 August 1999, be accepted as evidence and authorised for publication? There being no objection, it is so ordered. Is it the wish of the committee that exhibit No. 1 entitled, 'Risk Assessment and Management Plan for the Green Corps Programme: DEETYA' be accepted as evidence? There being no objection, it is so ordered.

On behalf of the committee I thank all the witnesses, the committee secretariat and Hansard.

Resolved (on motion by **Mr Cox**):

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

Committee adjourned at 4.04 p.m.