



COMMONWEALTH OF AUSTRALIA

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## SENATE

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

**Reference: Review of Auditor-General's reports, first quarter 2003-04**

MONDAY, 16 FEBRUARY 2004

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**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT**

**Monday, 16 February 2004**

**Members:** Mr Charles (*Chairman*), Ms Plibersek (*Deputy Chair*), Senators Hogg, Humphries, Lundy, Murray, Scullion and Watson and Mr Ciobo, Mr John Cobb, Mr Georgiou, Ms Grierson, Mr Griffin, Ms King, Mr King and Mr Somlyay

**Senators and members in attendance:** Senator Watson and Mr Charles, Mr Ciobo, Ms King and Ms Plibersek

**Terms of reference for the inquiry:**

Review of Auditor-General's reports, first quarter 2003-04

**WITNESSES**

<b>ALDRED, Mr Thomas William, General Manager, Rural Support and Adjustment, Department of Agriculture, Fisheries and Forestry .....</b>	<b>1</b>
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<b>MUGFORD, Mr Robert, Business Manager, Rural Services, Centrelink .....</b>	<b>1</b>
<b>PETERSON, Mr Brett Leslie, Assistant Commissioner, Small Business, Australian Taxation Office .....</b>	<b>1</b>
<b>SALVAGE, Mr Robin, National Manager, Business, Rural and Rent Assistance, Centrelink .....</b>	<b>1</b>



**Committee met at 10.38 a.m.**

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**MUGFORD, Mr Robert, Business Manager, Rural Services, Centrelink**

**SALVAGE, Mr Robin, National Manager, Business, Rural and Rent Assistance, Centrelink**

**CHAIRMAN**—I open today's public hearing, which is the first in a series of hearings to examine reports tabled by the Auditor-General in the financial year 2003-04. This morning we will be taking evidence on Audit Report No. 1: *Administration of three key components of the Agriculture—Advancing Australia (AAA) package*. We will run today's session in a roundtable format and I ask participants to observe strictly a number of procedural rules. First, only members of the committee can put questions to witnesses if this hearing is to constitute formal proceedings of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion, I would ask them to direct their comments to me and the committee will decide if it wishes to pursue the issue. It will not be possible for participants directly to respond to each other. Second, given the length of the program, statements and comments by witnesses should be relevant and succinct. Third, I remind witnesses that 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. Finally, I refer any members of the press who are present to a committee statement about 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 this committee statement are available from the secretariat.

I welcome representatives from the Australian Taxation Office, Department of Agriculture, Fisheries and Forestry, Centrelink and the Australian National Audit Office to today's hearing. Since we are going to talk about Audit report No. 1, and you know why you are here, do any of the representatives wish to make a very brief opening statement?

**Mr Aldred**—Given that the document is largely to deal with the package of programs that our department administers, I would like to make a brief opening statement.

**CHAIRMAN**—How brief?

**Mr Aldred**—I will cut it to the cloth that you will allow me, Chairman.

**CHAIRMAN**—Two or three minutes.

**Mr Aldred**—Mr Chairman, members of the committee, thank you for the opportunity to be present today. The AAA package of programs aims to promote an increased emphasis in the primary producer community on capacity building, risk management and self-reliance, and, whilst facilitating this shift, the integrated package also includes a decision support and welfare safety net for individual farmers undergoing financial hardship.

The audit undertaken was to assess the adequacy of the Commonwealth's administration of three of the major components of the suite of programs, FarmBis, Farm Help and the Farm Management Deposits Scheme, each of which is delivered in conjunction with other parties. The FarmBis program is delivered jointly with states and territories, the Farm Help program through Centrelink, and the Farm Management Deposits Scheme with the Australian Taxation Office, agencies also represented here today.

In respect of the audit report, the subject of today's hearing, the department found the exercise to be extremely useful in examining a range of issues in relation to those programs, particularly at the strategic level. We approached the audit process very much from the point of view of continuous improvement of our programs, and we welcomed the detailed discussion with ANAO officers, and some of it was certainly detailed. In this respect, the respect made nine recommendations, one regarding the FarmBis program and four each for Farm Help and the Farm Management Deposits Scheme. As a department we, and other portfolios, agreed to all of the recommendations, and progress has been made on implementing them.

In particular, two of the recommendations have been fully implemented. Recommendation 4 relating to the Farm Help program has seen amendments to legislation regarding the certificate of inability to obtain finance within the Farm Household Support Amendment Act passed late last year. The amendment streamlines the administrative arrangements to obtain that certificate. Recommendation 6 relating to the Farm Management Deposits Scheme has seen the Australian Taxation Office and our department signing a memorandum of understanding, and under that memorandum of understanding we have held the first meeting of a joint consultative committee established under the MOU. In consultation with other agencies present, work is continuing to address the other recommendations.



**Senator WATSON**—I think the department really need to be congratulated because it appears you have handled it reasonably well. What does please me is that you have worked closely on picking up the ANAO's recommendations to finetune and improve the program. Where departments work harmoniously with other agencies such as the tax office, and especially the ANAO, it augurs well for the future. So the exercise has been important for us in that regard.

**CHAIRMAN**—I have a question to AFFA. Our report says the expenditure for the first 18 months of this program was \$40 million. Does this program follow on from an earlier program, and an earlier one, and an earlier one?

**Mr Aldred**—The FarmBis program, commonly referred to as FarmBis II, is a follow-on from the original FarmBis program that was part of the first AAA package that was launched in 1997.

**CHAIRMAN**—Did that follow on from something earlier that helped support farmers for training?

**Mr Aldred**—Senator—

**CHAIRMAN**—I am not a senator.

**Mr Aldred**—Chairman, I said to my colleagues, 'Mark down the number of times I make that mistake during this hearing.' I apologise.

**CHAIRMAN**—We got elected by the people! I just point that out; the three of us—Ms King, Ms Plibersek and moi.

**Mr Aldred**—Let me say that I am practising because afterwards I am to appear before a Senate estimates committee.

The AAA package was developed as a result of a broad ranging review, commonly called the McColl review, that was undertaken during 1996 and that looked at the Rural Adjustment Scheme. The point I made about shifting towards greater self-reliance, risk management and capacity building was a direct recommendation from the McColl report.

**CHAIRMAN**—Any more questions on FarmBis II?

**Ms KING**—I understand there is an agreement for a cap on administrative expenses and I was just wondering by how much administrative expenses exceeded that cap and why? Do we have that information by state?

**Mr Aldred**—Yes. At the time the audit was undertaken, the cap, which covers coordination, communication and administration of the scheme undertaken through the states and territories—

**Ms KING**—The cap relates only to administration or all of those?

**Mr Aldred**—No, the cap relates to the three. It varies between 22 and 25 per cent of the total amount that the Australian government invests through the program in each of those states. At the time the audit was undertaken, the percentages had certainly been exceeded in a number of

jurisdictions. The report notes that that is partially as a result of some upfront costs in establishing the program and getting it rolling in those jurisdictions, and secondly because uptake of the actual program and training subsidies had not been as great as we had anticipated.

Again, at the time of the audit we expected that we may not see a full rate of uptake. At the moment, the uptake has certainly increased over the last 12 months as the programs got rolling and given that funding for FarmBis and the AAA package concludes in June 2004. In most jurisdictions, the caps are now back on track with a couple of them slightly open.

**CHAIRMAN**—On the Farm Help program—and there is discussion about this issue in the audit—what is Centrelink, and I guess the department, doing to sort out the difference between the legislation—for a maximum of a 12-month qualifying period having to have two certificates and legally the last certificate is out of time while payments are still being received. Has anything been done to address that?

**Mr Aldred**—That particular recommendation was addressed in amendments to the legislation at the close of last year, with royal assent being received during November. The mechanism that was used in the amendments to the legislation was to change the period of currency for the certificate. Whereas it had previously been for six months and applicants needed to have two of those in consecutive time, the certificate now can be issued for a 13-month period, which generally overcomes the operational type issues.

**Ms KING**—Some people only need one certificate now?

**Mr Aldred**—Yes.

**CHAIRMAN**—Is the short-term income support really unemployment benefits for very low-income farmers without making them go look for a job?

**Mr Aldred**—We would prefer not to see it exactly that way. It is certainly pegged against the Newstart arrangements, and there are some distinctions about why primary producers can access the program and not Newstart. One is, for example, that because of the asset they manage they cannot go and look for another job.

**CHAIRMAN**—We know.

**Mr Aldred**—The way that we are trying to push the program, however, is not that it is essentially income support, or purely for that purpose. What we are trying to do is to give people a period of up to 12 months when they can actually receive a range of support, including income support, to actually consider where the future of their enterprise actually lies, because by the time a number of primary producers actually get to the program they are having relatively significant problems.

**CHAIRMAN**—Centrelink performance seems to be judged by those who receive the payments as very good. Have you tested the performance against payments for unemployment benefits for Newstart or the age pension, or the payments required to be adjusted because of CSA?

**Mr Bashford**—We are always looking at all of our payments, and there are a number of them, to see if we can improve. The Farm Help payments are usually of quite a different nature, because there is generally not such a big take-up as there are in the other payments, and the rules that we have to apply are a little different. But, generally speaking, what we try and do is take all our experience in terms of making things like Newstart payments and bring them to bear when we put in the systems to apply to any other sort of program.

**CHAIRMAN**—The third program objective of the Farm Help program is to provide adjustment support to farmers who have taken the decision to exit farming. Can you tell me what that adjustment support consists of?

**Mr Aldred**—The support includes a couple of elements. It includes retraining and professional advice to assist people in making career and financial decisions. It also includes a re-establishment grant of up to \$45,000 should the recipient choose to exit farming.

**Ms PLIBERSEK**—Regarding Farm Help in particular, the number of customers was lower than expected and under the memorandum of understanding Centrelink pays for the administration of Farm Help on a fixed schedule regardless of the number of customers. I am interested in why it took two years of discussions to come up with the flexible funding model and whether you have any estimate of AFFA's overpayments in the past. Perhaps, Mr Aldred, you could start at your end and then come back to Centrelink.

**Mr Aldred**—As the audit report identifies, under the MOU there was not provision to undertake such a variable costing model or to repay funding. However, I do believe that the relationship between our portfolio and Centrelink meant that we were able to raise the issue towards the end of the first year of the program. So I think it was about nine months into the program that some monitoring had indicated that uptake was not as high and so we raised the issue with Centrelink. We continued to have discussions over the way that a variable costing model might actually get put into place. The discussions were quite cooperative but they did take a little time and also involved some data collection by Centrelink that enabled us to come up with a variable model. In discussion between the two agencies we implemented that at a time when we could actually set a changeover date, if you like.

**Ms PLIBERSEK**—Did Centrelink want to add anything to that?

**Mr Salvage**—The only thing I would add to Mr Aldred's comments are that in setting up a program like Farm Help there is a fair element of fixed costs: no matter how many customers turn up, there will always be the need for us to set up the required systems, forms, staff available to take inquiries et cetera. So even though the process took some time there is still a strong element in these programs of us having to set up the infrastructure, and the fixed cost and the fixed and variable model that we have come up with actually does reflect that.

**Ms PLIBERSEK**—So you would not really have any idea of how much the overpayments amount to?

**Mr Salvage**—Working on historical data, for 2002-03 we returned funds—I do not have the exact amount—and that was the first time the fixed and variable model was used. We do not have any estimate of previous years but I would refer again to the fact that most of that probably

would have been fixed costs and there probably was not a lot of room to redeem savings in that context.

**Ms PLIBERSEK**—I want to go back to the one per cent growth rate target that we were talking about with the ANAO earlier. That was for the Farm Management Deposits Scheme, wasn't it?

**Mr Meert**—That is right.

**Ms PLIBERSEK**—That is a pretty low growth rate that you set as a target. Is there some reason that it was so low? I think the ANAO have told us that the actual growth rate was closer to 44 per cent, so that is a pretty striking underestimate.

**Mr Aldred**—We acknowledge it was exceedingly low and I do not have a strong foundation for the selection of that performance indicator at that time. In our discussions with ANAO officers we did actually undertake some discussions around the portfolio. I have some belief that people were likely to have been talking about a percentage point in the number of eligible producers and so on rather than a one per cent increase in the number who first came on, and so the mathematics actually changed substantially in doing that. It is likely that that is the sort of figure that we would start to look at, or the sort of way we would modify performance indicators for the Farm Management Deposits Scheme.

**Ms PLIBERSEK**—Sorry, you are saying that if you were doing new performance indicators you would set them according to a likely growth in the number of farmers?

**Mr Aldred**—In the number of eligible farmers. A better performance indicator would be that if there are 140,000 farm families how many of those participate in the scheme, because we would like to get a substantial number of people using the scheme. So that would be a better performance indicator than a percentage increase—

**Ms PLIBERSEK**—In the number of farm families.

**Mr Aldred**—on top of the people who were already in it, because that is the way the initial performance indicator was expressed. So if there were 1,000 farmers in year one the performance indicator was a one per cent increase on 1,000 farmers, which means it is exceedingly low.

**Ms PLIBERSEK**—I am sorry, I thought I understood what you were talking about to begin with but you have totally confused me. Go back to the beginning please.

**Mr Aldred**—The way the performance indicator is expressed is a one per cent increase in people using the Farm Management Deposits Scheme. So if there are 1,000 people in the scheme and we set a performance indicator of increasing the usage, to meet that performance indicator one per cent of 1,000 would lead us to have 10 people. What we are trying to do is increase the proportion of farmers who use this scheme as a management tool. So we would have been better to have expressed it as a one percentage point increase of the number of farmers out there.

**CHAIRMAN**—Ten times as high.

**Ms PLIBERSEK**—So taking your number of, say, 140,000 farming families, was your original intention to say an extra one per cent of those 140,000 farming families or a one per cent increase on the number of people using it?

**Mr Aldred**—I cannot say that that was the original intention.

**Ms PLIBERSEK**—So you do not know? Basically the reason I do not understand it is because you do not understand it!

**Mr Aldred**—I do not know the original foundation for the figure, given that it was a new program.

**CHAIRMAN**—In simple English you do not know.

**Mr Aldred**—In simple language, the way the one per cent is expressed we do not know the basis of that.

**Ms PLIBERSEK**—The alternative explanation is that nobody had any idea what the take-up rate would be, and to cover their arses they set a very low growth rate target because they were always going to exceed a very low growth rate target. I am not suggesting that there is anything improper going on here, but there is no need to confuse it with mathematics if the real intention was just to set a very low growth rate target so that they were always going to exceed it.

**Mr Aldred**—I do not think the intention was ever to set a low benchmark that was easy to jump over.

**Ms PLIBERSEK**—Really? A one per cent growth rate target?

**Mr Aldred**—I have tried to explain my belief of the origin of the figure and the way that it was incorrectly expressed, but that is my belief rather than something that I can confirm.

**Ms PLIBERSEK**—I wonder if the ANAO has any comments on that as an explanation for a one per cent growth rate target.

**Mr Greenslade**—I think I agree with Mr Aldred; we could not pin the down the reason. The comment we make in the report, though, is that that target was lower than the historical growth rates prior to the scheme of about 44 per cent. I think we make the point—which I think Mr Aldred was pointing towards—that we think it would be more useful to have a FMD Scheme participation rate as a target.

**Ms PLIBERSEK**—A percentage of farm families taking it up?

**Mr Greenslade**—Yes, and indeed we made some calculations in the report on what we thought those participation rates were.

**CHAIRMAN**—Do ATO have a comment about that?

**Ms Granger**—As the total population involved in primary production is roughly, according to our records, a tad under 200,000, so the figure of about 40,000 participants gives you an idea of the participation. The issue that will be difficult, of course, is that there can be cyclical participation—which is quite sensible as this is an industry subject to seasonal differences—so I think there is a fair challenge ahead of us. Overall, as Mr Aldred said, given this is a tool to help with managing, that would be some indication of people’s awareness of it and the level of the participation scheme.

**Ms PLIBERSEK**—People stay in the scheme through the cycle though, don’ they? That is the point.

**Ms Granger**—We are actually seeing a slight drop in participation rate at the moment.

**Ms PLIBERSEK**—As things get better?

**Ms Granger**—That is speculative.

**Ms PLIBERSEK**—Or as people leave the farming sector?

**Ms Granger**—We are not sure.

**Ms PLIBERSEK**—You do not know?

**Ms Granger**—Yes.

**Ms PLIBERSEK**—Does AFFA have an answer for that? Would you know whether there is a slight drop because people are leaving the farming sector or because they do not need the help?

**Mr Aldred**—Without having absolutely tracked it through and given specific details, we believe that we are seeing a number of people drawing down their farm management deposits to respond with the current drought, and it is those sorts of factors that will influence it. When someone leaves the scheme or withdraws a deposit, that does not prevent them from making further deposits in the next good year, so we would expect, over time as the scheme matures, that we would start to see more of those sorts of trends.

**Ms PLIBERSEK**—That is what I mean. If they are drawing down they are still participating in the scheme according to the ATO figures, aren’t they? Or if they are drawing down on their deposits, they are still participating, aren’t they?

**Ms Granger**—That is the point I am making. From our records, withdrawing may not necessarily mean non-participation. It may simply be that rationally you are withdrawing because now is the year where you can.

**CHAIRMAN**—I would like to ask ATO about the Farm Management Deposits Scheme. The documentation indicates that ATO believes that the revenue forgone is something like \$410 million? Is that right, Alan?

**Mr Greenslade**—Mr Chairman, I think you might be referring to table 4.2 on page 88 of the report, which gives cost to revenue estimates.

**CHAIRMAN**—We are really just talking about cash, aren't we? In a sense it acts the same as the former averaging schemes we had for farm income where you could average your income over five years, except that farmers seem to think this is a better scheme than just averaging income.

**Mr Konza**—It acts as a complementary scheme to the income averaging scheme.

**CHAIRMAN**—They both operate in tandem?

**Mr Konza**—Yes, that is right, but you do not have to be in both; it just allows more flexibility for the farmer. The figures in table 4.2 are Treasury estimates based on ATO data.

**CHAIRMAN**—Do you think that is right? Is what in fact really happens that, say, if year one happens to be a profitable year the farmers put money into deposits and so you count the amount of tax that was not received from the income that generated the money put into deposit, and the following year and the year after they might take the money out, so the ATO becomes more cash positive and so it works its way through the cycle. That does not really cost revenue anything, does it?

**Mr Konza**—I think the revenue cost would be the public debt cost—that is usually the way revenue cost is calculated. Treasury would normally make a calculation based on the cost of obtaining finance for the government and then would estimate the time value of the farm management deposits to get to that revenue estimate.

**CHAIRMAN**—Four hundred and ten million dollars worth of interest expense; good grief!

**Mr Konza**—They are Treasury figures; I am not aware of the detail. There are a couple of billion dollars on deposit, so \$400 million—

**CHAIRMAN**—That is 20 per cent.

**Mr Konza**—Yes, it sounds a little high, doesn't it?

**CHAIRMAN**—It sounds awfully high. Does ANAO have a view? I realise this is not what the audit is about but I have to admit to being terrible confused.

**Mr Greenslade**—I think one of the factors that contributes to that cost is the difference in the marginal rate of tax that will be paid by the person making a deposit. If the deposit is made, tax is not paid on that in that year, so the deposit may be made when the amounts would otherwise be subject to the higher rate of tax and drawn out when they are at a lower rate of tax. I think that is the major contributor. Mr Duniec might wish to add to that, but that is my understanding of the major contributor.

**Mr Duniec**—My understanding is that it is a cash cost.

**CHAIRMAN**—Sorry?

**Mr Duniec**—My understanding is that you are correct: it is a cash cost, and that is how the cost to revenue—

**CHAIRMAN**—It is just cash, it is not really cost to revenue?

**Mr Duniec**—It is not the public deed interest; it is the cash cost in that particular year which is fed through into our accrual budget system.

**CHAIRMAN**—Can you tell me how, because I did not realise that, the income averaging scheme works in tandem with the deposit scheme? That must take some really creative accounting to cope with that.

**Mr Peterson**—The deposit or withdrawal simply becomes a factor in calculating the income in any given year—in a sense a bit of a multiplier—so when you take money out you add to your income for that year, plus of course you are bumping up your average over a period of time. It is just a factor in calculating your average.

**CHAIRMAN**—Okay, I guess.

**Mr Konza**—When you make a deposit you deduct that from your taxable income and you have to factor that into what effect that will have over your rolling average income. That is assuming that you have—

**CHAIRMAN**—It is still part of your rolling average income? If I made a million dollars in profit this year—I am a very high-profile farmer; highly unusual, I recognise, but there would be a few out there—and I put half of that into a deposit, are you telling me that my tax return now says that I earned a million dollars, not half a million dollars?

**Mr Konza**—No, I was saying that you would deduct that deposit from your taxable income so it would now say you earned only half a million dollars.

**Ms Granger**—There is a \$300,000 ceiling on what you can deposit.

**CHAIRMAN**—My example was not very good.

**Mr Konza**—There is a trap in your example.

**Ms Granger**—This is possibly more Mr Aldred's territory, but there are a number of features of the scheme to limit the participation amount and that is why there is a \$300,000 limit.

**CHAIRMAN**—I think I can see why the scheme has become so popular. Thank you very much for coming today and answering our penetrating questions. I have been wont to say from time to time that it does us all good to find department procedures and programs that are operating properly, so well done. I would like to thank all of the participants today, my colleagues, the secretariat, observers and Hansard.



Resolved (on motion by **Ms Plibersek**):

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 11.16 a.m.**