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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

(Roundtable)

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

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**JOINT STATUTORY COMMITTEE ON
PUBLIC ACCOUNTS AND AUDIT**

Monday, 14 February 2005

Members: Mr Baldwin (*Chair*), Senators Hogg, Humphries, Moore, Murray, Scullion and Watson and Mr Broadbent, Ms AE Burke, Ms Grierson, Miss Jackie Kelly, Ms King, Dr Laming, Mr Somlyay, Mr Tanner and Mr Ticehurst

Members in attendance: Senators Hogg and Watson and Mr Baldwin, Mr Broadbent, Ms Burke, Ms Grierson, Dr Laming, Mr Somlyay, Mr Tanner and Mr Ticehurst

Terms of reference for the inquiry:

To inquire into and report on:

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

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Committee met at 10.40 a.m.

BAMSEY, Mr Howard, Deputy Secretary, Department of the Environment and Heritage

BATES, Dr Bryson Craig, Director, CSIRO Climate Program, Commonwealth Scientific and Industrial Research Organisation

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WRIGHT, Dr John Kevin, Director, Energy Transformed Flagship, Commonwealth Scientific and Industrial Research Organisation

CHAIR—I open today's public hearing which is the eighth in a series of hearings to examine reports tabled by the Auditor-General in the financial year 2003-04. The previous committee held a number of hearings regarding the Auditor-General's 2003-04 audit reports, and we are now continuing that inquiry with this hearing today, the first public hearing for this new committee of the 41st Parliament. This morning we will be taking evidence on Audit report No. 34, *The administration of major programs (Australian Greenhouse Office)*, and also Audit report No. 36, *The Commonwealth's administration of the dairy industry adjustment package*.

I welcome witnesses from the Australian National Audit Office, the Australian Greenhouse Office and the Commonwealth Scientific and Industrial Research Organisation to provide evidence on Audit report No. 34. 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 the parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege.

We will run today's session using a roundtable format with witnesses from different agencies appearing together. However, I ask participants to remember that 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 the committee. It will not be possible for participants to directly respond to each other. Secondly, given the short time available today, statements and comments by witnesses should be relevant and succinct. The matters on which

this committee might wish to focus on are as follows: areas of risk assessment, performance management, project appraisal, project selection, funding agreements and performance reporting.

I now ask each department to make a brief opening statement to the committee, perhaps starting with the CSIRO.

Dr Bates—The CSIRO Climate Program is a large multidivisional, multidisciplinary research program. It encompasses the work of hundreds of researchers and many CSIRO divisions. The program brings together extensive world-class research into climate, including climate variability and climate change. Climate change is an important issue facing Australia and the world. The scientific evidence for global warming is compelling. The Australian climate has changed significantly over recent times. Australian average temperatures have risen by 0.8 of a degree Celsius over the past century, with a commensurate increase in the frequency of very warm days and a decrease in the frequency of frosts and very cold days. The past decade has seen the highest recorded mean annual temperatures. To slow global warming we will ultimately need to stabilise atmospheric concentrations of greenhouse gases. Substantial emission reductions will be required. The greater reductions in emissions and the earlier they are introduced, the smaller and the slower the projected warming.

CSIRO advocates that Australia take a three-pronged approach: better information about impending climate change, reduction of greenhouse emissions through new technology, and adaptation to climate change. CSIRO has undertaken research into climate change since the 1980s; special Commonwealth funding for this purpose commenced in 1989. Since it was established in 1998, the Australian Greenhouse Office has supported research into climate change through the Australian Greenhouse Science Program and through the new Australian climate change science program. The programs have been supported by co-investments from CSIRO, the Bureau of Meteorology, the National Tidal Facility and the Australian Academy of Science. Thanks to Commonwealth government support in recent years from the AGO, we have made significant advances in our understanding of Australian and global climate and the way in which it is likely to respond to rising concentrations of greenhouse gases.

Specifically there have been major advances in observing and understanding key climate change processes, including the role of oceans, the impact of climate, of aerosols and clouds, the carbon and hydrological cycles, sources and sinks of greenhouse gases, and linkages between climate change, climate variability and extreme events. There have been considerable improvements in climate modelling and regional projections of climate change. The Australian Greenhouse Office has made substantial contributions to these advances. This underpinning core science work has helped progress in technology designed to mitigate climate change through reduction of emissions of greenhouse gases.

The success of Australian science and our strong international linkages have enabled Australia to influence the priorities for greenhouse research at the global scale and leverage research information from countries to our benefit. CSIRO endorses the following statement made in the Green and McRae evaluation of the Australian Greenhouse Science Program in the period 2003-04: 'Our eminence is borne out by the number of Australians involved in international forums and committees, certainly exceeding the level one would expect from our project rata contribution to the global greenhouse research effort.'

Thanks to AGO support, Australia is a prominent contributor to the intergovernmental panel on climate change, the body that advises governments on the latest science of climate change, its impacts and possible adaptation and mitigation. For 2004 and 2005, the AGO has provided \$4.4 million in support of CSIRO's climate change research effort through the program. CSIRO has had, and will continue to have, a strong and productive involvement with the AGO. CSIRO is currently working with the AGO and other research agencies to identify the specific climate change issues that need to be addressed in Australia during the next three years. CSIRO strongly endorses the value of the Australian climate change science program administered by the AGO.

I compliment the AGO on their recent important initiatives in communicating greenhouse science. It is very important that the latest information be made readily available to the community. Industry, government and the community need to be aware of how greenhouse is likely to affect them. They also need to be aware of what they can do to minimise greenhouse gas emissions and adapt to inevitable changes. Late in 2003 the AGO released a well-written, well-received book titled *Climate Change—An Australian Guide to the Science and Potential Impacts*. This is just one of the many valuable communication products produced by the AGO. The Australian climate change science program will foster even stronger linkages to Australian stakeholders.

In conclusion, the Australian Greenhouse Office has successfully taken a major role in sponsoring world-leading science. CSIRO has benefited from the strong partnership forged with the AGO. In turn, this partnership has delivered significant outcomes for Australia. The AGO is fulfilling its mandates to support research and monitoring, encourage emission reductions and inform the Australian community about climate change.

CHAIR—Do you wish to add anything, Dr Wright?

Dr J. Wright—No.

CHAIR—I call on the AGO to make a statement.

Mr Bamsey—Thank you, Mr Chairman. With your permission, I will table the statement and make a few introductory comments hitting the main points. The first thing to note is that, since the audit, the status of the AGO has changed. We were at that time an executive agency; we are now, as a result of the admin arrangements changes following the election, part of the Department of the Environment and Heritage. When the audit was published, we welcomed it. It provided us with a rigorous independent assessment of what we had been doing in some of our major programs, and we were pleased to receive it, and particularly pleased that generally it was positive about the way we had delivered those programs. I will not go into the details of that, because presumably you will want to ask questions and they are in the report anyway, but when it came to the recommendations in the report, we agreed with all of them, and we have been implementing them, as you would expect, since that time. As the report showed, during the administration of the programs it examined, we had recognised the challenges and responded generally at best practice to administrative issues, implementation issues, as they arose. That continuous improvement remains a very important part of the way we implement programs, and will continue to do so.

CHAIR—Can you provide the statement? It will be distributed and circulated to members.

Mr Bamsey—Yes.

CHAIR—Is it the wish of the committee that the document entitled ‘Opening statement for tabling in the hearing of the 14 February 2005’ and presented by the now Department of the Environment and Heritage, then the Australian Greenhouse Office, be accepted as evidence in the sectional committee review of the first quarter 2003-04 reports of the Auditor-General and included in the committee’s records as an exhibit? There being no objection, it so ordered. Are there any other comments from the AGO? Perhaps the Audit Office would like to present comments to the public hearing.

Mr Cochrane—I think we will rest on the report, Mr Chairman.

CHAIR—I will kick off with a couple of questions. I have some concerns with the lack of explanation as to why there were measurable milestones in the projects as delivered. Could the Department of the Environment and Heritage comment on that?

Dr D. Wright—Could you refer me to the specific section?

CHAIR—It is particularly in relation to recommendation No. 1, which refers to the risk. Looking broadly at the report and briefing provided to us, I have concerns about the lack of milestones as a point of measure.

Dr D. Wright—The then AGO has delivered a broad range of programs, including a significant number of grants programs. Prior to the last budget we had somewhere between 26 and 30 separate initiatives. These vary considerably in their design and nature, and some of the major programs were subject to consideration of this ANAO report. All contractual arrangements entered into by the AGO with project proponents under the various programs do have specific milestones. No payment is made and the report recognises that no payment is made unless a milestone is achieved. For a large number of these projects—for example, with the development of renewable energy technologies—it is not possible to measure any greenhouse outcome or any other interim measure except where a milestone, be it the delivery of a boiler or the construction of a component of plant, has actually been met. It is not until the commissioning or the end of a project when different technologies are linked together that you can actually start to measure the greenhouse outcomes.

I think what the ANAO is trying to distinguish in the report, and certainly in the new programs that we have—and virtually all of the AGO’s programs were reset in the last budget and as part of the energy white paper—is that we are seeking to implement greenhouse-type interim milestones wherever that is possible. When it is related to very long-tail development of technologies, then the milestones are more operational, and those already exist as part of the contracts.

CHAIR—I am concerned about the time lag between application and granting approval, and that the time would actually skew in favour of large companies that have the financial ability to hang on to the development of a program, as against perhaps some of the smaller, and no doubt just as wise companies, in their involvement in industry and development of practices. Why the time delay of up to two years in approving programs?

Dr D. Wright—I think you may be specifically referring to the ANAO's findings on the Greenhouse Gas Abatement Program, colloquially known as GGAP.

CHAIR—Yes.

Dr D. Wright—The project proposals go through quite extensive technical and financial assessments, and these are then subject to ministerial approval. There have only been two rounds of GGAP to date; the third round has been assessed and is awaiting ministerial approval, and that is the last round of the program. It was agreed in the last budget that the program cease with round 3, and it has been superseded by new programs. With round 2 of the GGAP program, the assessment and consideration by ministers—and at that time it was a ministerial council that existed—was interrupted by the calling of an election, and that caused a delay. Only some projects could be announced prior to the election; the others had to await the new ministry being announced. With the new programs that were announced in the last budget and the energy white paper, the guidelines for assessment and time lines are being developed in consultation with business.

We have two programs in particular. The Low Emission Technology and Development Fund is a significant grants program, and there will only be three rounds over 15 years. Consultations with industry have started, and the draft guidelines are about to be issued. Business is in fact asking for more time than we envisaged, rather than less time, in terms of program development of proposals and for the assessment. With the renewable energy development program, those proposals will most likely be subject to IR&D Board consideration, which is a fairly standard formalised process which has been found to work and is agreed by business.

CHAIR—This is my last question before I hand over to other members of the committee. The Alternative Fuel Conversion Program had a target of 4,000 trucks and 800 buses to either progress to natural gas or LPG. I notice that only 26.9 per cent of the budget has actually been spent. What have been the actual achievements; how many trucks and buses per annum have been converted?

Dr D. Wright—I have the information up until August. I could supply on notice a detailed table with the complete picture to date. The alternative fuels conversion program has been changed as a result of the last budget and is going to focus now more on pilots working with fleet operators, but there were some residual applications in the pipeline that clicked over the end of the financial year. The total number of applications and funding completed is 31; the total number of vehicles is 69; the total number of passenger buses is 729, making a grand total of 1,040.

CHAIR—So only about 1.5 per cent of the truck requirements?

Dr D. Wright—The AFCP program was designed as part of the Measures for a Better Environment package, and the design of the program was based on the best information available from industry at the time. As the ANAO report recognises, the AGO monitored the program very, very closely and, within 12 months of the program commencing, we identified that uptake was not aligned with the projections that were obtained from industry. At that time we instigated a review of the program and went out and consulted with business. Within six months that review was put to the minister, and it suggested a change in the thrust of the

program, that the state of development of the technologies and business was not as far advanced in Australia as has been envisaged—in particular, the availability of engines for CNG. The minister accepted the findings of the review, and we then consulted further with business on amending the program guidelines and redesigning the program, and that redesigned program was agreed in the last budget. It focuses on pilots with significant fleet operators—for example, BP, Coates, Murray Goulburn and a couple more. We have agreements with those companies to actually work with them to develop a business case and to pilot the technology to facilitate import of engines, and the revamped program is actually working very well. So we actually consider AFCP to be a case of best practice where we monitored, we identified slow uptake, we undertook a review, we put the findings of the review and a proposed redesign to our minister and that was then taken to the budget and the program was redesigned. We are now effectively progressing the development of those technologies.

Mr TICEHURST—Dr Bates, I think you mentioned that the temperature rise over the last 100 years in Australia was 0.8 of a degree, and the report says globally it was 0.6. What is the contribution of CO² to the greenhouse gases produced within Australia, and what effect does that have on the global situation with greenhouse gas?

Dr Bates—I have some figures here on the Australian per capita emissions—at least I thought I did. No, I do not appear to have those with me. I can take that question on notice, but our contribution in terms of total volume is relatively small but on a per capita basis it is quite high compared to other nations.

Mr TICEHURST—So why do we have a high temperature rise compared to the global one?

Dr Bates—We have a large land mass. You are dealing with averages, and if you take an average over the globe, you will not get the same result as if you take an average over each individual nation. You are bringing different countries together to take an average and then you are comparing that to one country, so to me it is not too surprising that it is only 0.2 of a degree.

Mr Bamsey—Just to quickly respond to your first question, Australia produces—depending how you count and what you count—about 1.5 per cent of global emissions.

Mr TICEHURST—Also looking at the graph here on the CO² emissions, it says stationary energy is 47.8 per cent. What proportion of that would be coal-fired power stations?

Mr Carruthers—I would have some information here on that. Perhaps we could come back to that in a second and I will just find it.

Mr TICEHURST—So it would seem, if we are going to make an impact on CO² emissions, that would be a good place to look at what we can do with the major sources.

Mr Bamsey—That is one of the key points in the government's energy white paper released last July, to recognise that coal will remain a very important source of stationary energy for Australia for the foreseeable future and to identify as a priority the reduction of emissions from the use of coal as a source. Dr Diana Wright made reference a couple of minutes ago to one of the major programs that the government introduced with the white paper which would provide

funding for technologies that were able to make a significant difference to emissions from coal and also in other ways to reduce Australia's emissions.

Mr Carruthers—Perhaps if I could just come back on that statistical information. Within stationary energy, electricity production in the most recent national inventory accounted for 182 million tonnes of emissions, or 33 per cent of the national emissions during 2002. I think your question was: how much of that is specifically coal? I do not have that at my fingertips, but we could supply that if you would like follow-up information. The share of coal is 87 per cent of the fuel use in electricity production.

Mr TICEHURST—There are some projects there that have looked at photovoltaics and, I guess, wind energy. What real effect can they have on the total requirement for energy?

Mr Bamsey—I think energy forecasters see some forms of renewable energy increasing their take-up very quickly, and I think at the moment globally the fastest growing energy source is renewable, and particularly wind, but I am not aware of any energy forecast which shows in the next few decades that renewable energy will be any more than a relatively small part of the energy picture.

Mr BROADBENT—About eight per cent.

Mr Bamsey—Well, it depends; it of course varies from country to country, and in Australia it will be somewhere around 10 per cent, depending how long you measure and what assumptions you make. The picture then is that, not just in Australia but also globally, existing fuel sources will remain important, particularly coal. Thus, if you are going to reduce emissions, you have to put a lot of effort into finding ways to reduce emissions from those fuel sources that will remain important, including coal.

Dr D. Wright—I think you will find that the figure for the percentage of electricity that comes from coal-fired generation is somewhere around 86 per cent at present. The growth in energy demand—particularly in electricity demand—is largely in peak and shoulder load, and that is an area where renewable energy has the potential to play a much more important role. As part of the new suite of programs announced in the energy white paper, photovoltaics in particular is being looked at to help manage that load as well as energy efficiency through both addressing market barriers in the electricity market and looking at storage technologies, which is currently quite a major impediment to the uptake of any renewable generation, because it tends to be intermittent. There is another dimension in that distributed generation is increasing globally in part to manage peak load but also as part of security for the energy supply. So, whilst it has not been taken into account in projections and fossil fuel will continue to play a major part, there is increasing potential for renewables.

CHAIR—We need to move on, and we will come back to you, Mr Ticehurst.

Ms BURKE—I just have a very specific question that you might need to take on notice. You were talking to the chair about the Alternative Fuel Conversion Program. Ventura Bus Lines operate in my electorate. They have not been able to get a grant under this project, even though they are running a fleet of ethanol-only buses. I find it really quite odd that you are saying this

has not had a take-up, but a company that is operating in my neck of the woods with 10 ethanol-only buses has not been able to get grants under this project.

Dr D. Wright—I can answer that. It is because the alternative fuels conversion program was enacted by legislation, a special appropriation, and ethanol was not part of the program design. So it is not possible to fund ethanol under the alternative fuels conversion program.

Ms BURKE—Given that, and that that is one of the areas that can be demonstrated by reports from various organisations as an alternative fuel that will reduce greenhouse gas emissions, are these projects limited in their application in actually reducing greenhouse gas emissions?

Dr D. Wright—The greenhouse benefits from ethanol depend on the fuel source and the method of production, and generally we do have a greenhouse benefit in the order of five per cent, which is quite small. It is not a very good fuel for abating greenhouse gases; it has other benefits in terms of air quality which are quite strong, but the extent to which you get a greenhouse benefit depends on the feedstock, the technology used to produce the ethanol, and then the way the technology is used to combust it. So, at present, there are no guarantees that it will deliver a greenhouse benefit.

Ms BURKE—What if it is wheat ethanol?

Dr D. Wright—Again, the other aspects apply as to how it is produced—whether the fuel that is used in preparing the ethanol was indeed from a renewable source. If you look at it from a whole-of-lifecycle basis, it is often very difficult to get a greenhouse benefit from ethanol—not impossible, but difficult.

Mr TANNER—I want to ask several questions about one particular aspect of the report which is project selection. I notice that it says in the summary of the Audit Office report that, at the specific instruction of the minister, the AGO does not or has not provided recommendations with respect to which projects should be approved for funding and which projects should not be approved the funding. Can you tell us—not necessarily the precise date—when that happened, who was the minister and has the AGO subsequently gone to either that minister or successive ministers and sought to have that changed?

Dr D. Wright—If I could answer your last question first, that was a recommendation by the ANAO, that refers only to the GGAP program. That recommendation, in terms of having a ranked assessment with recommendations to ministers, has been taken on board with round 3 which is the last round of the Greenhouse Gas Abatement Program.

Mr TANNER—What do you mean by ‘taken on board’?

Dr D. Wright—Round 3 is currently with the minister for approval.

Mr TANNER—With recommendations?

Dr D. Wright—With recommendations, indeed, so that recommendation has been put into force.

Mr TANNER—On the instruction from the minister that the Audit Office report refers to, when would that have been, and who would have been the minister?

Dr D. Wright—I believe that that procedure for coming to a conclusion on which GGAP projects should be successful was brought into force when a ministerial council was managing the AGO and therefore involved in the assessment of all the GGAP proposals, and that ministerial council had some seven ministers on it.

Mr TANNER—When would that have been?

Dr D. Wright—That would have been for GGAP rounds 1 and 2, and changed about the November 2001 election when the AGO and greenhouse responsibilities were given solely to the environment minister. Prior to that, there was a ministerial council of seven ministers who were collectively responsible for the Australian Greenhouse Office.

Mr TANNER—Are you able to tell me roughly when the decision was communicated to the AGO that the details of funding applications would be forwarded without recommendations to whoever the ministers were?

Dr D. Wright—I cannot give you the exact date. I do not have that in my head.

Mr TANNER—The year?

Mr Bamsey—I think it was probably before either of us was in the AGO.

Dr D. Wright—It would have been in force for GGAP round 1, and GGAP itself came into being in 1999. It was operating for round 1, so it was part of the original process and program design.

Mr TANNER—After the switch to a single minister, the environment minister, that process stayed in place of not providing recommendations?

Dr D. Wright—No, because the announcement on GGAP round 2 was interrupted by the 2001 election. As the Audit report states, part of that round was announced just before and part of the round just after, but that was subject to government consideration at that time. Since GGAP round 2, there has been no other round of GGAP until round 3 which is currently with the minister with the new processes in place.

Mr TANNER—Right. I just want to clarify something you said before. Is this the only funding arrangement that the AGO operates that has operated in this way, where no recommendations are made to the minister or ministers about which projects should be chosen?

Dr D. Wright—There have been quite a broad range of programs that operate on a variety of bases. Each one has different processes and, as of the last budget, we have a new suite of programs, and those new processes that are currently being agreed. So there is no other program that is exactly like GGAP. We have the Remote Renewable Power Generation Program which is operated through the states. Only major projects under that program come to the minister, and they come on recommendation from each of the individual states. They are separately assessed

by us as to whether they pass or fail the guidelines. So that is a one-on-one basis. In the Renewable Energy Commercialisation Program, there have been six rounds of grants. The last round was in November 2001, and there was an independent panel that assessed the projects which had already been through a technical and financial assessment.

Mr TANNER—So, in effect, that independent panel made a set of recommendations to the minister or ministers.

Dr D. Wright—Indeed. The specifics of that I would need to go and check on file, because as I said, the last round was 2001.

Mr TANNER—Apart from GGAP, of which you have explained the history, are there any existing programs where—GGAP has now changed, by the sound of it—grant decisions would have been made by ministers without any formal recommendations in front of them, be it from an independent expert panel or from the AGO or the states?

Dr D. Wright—Not to my knowledge. In the GGAP program, all the project proposals were thoroughly assessed against the program guidelines as to whether they met them or not.

Mr TANNER—I am not asking about assessment; I am asking about a recommendation. The thing I am concerned about is situations where ministers are making decisions to disperse public moneys without a recommendation from people with expertise as to whether it should go to application A or application B, that is what I am getting at.

Dr D. Wright—Not with the programs prior to the last budget. With the budget and the energy white paper, the design of the new suite of programs and program guidelines is currently being agreed by ministers. Some of those programs have a joint responsibility with the Minister for Industry, Tourism and Resources as well, but all of those will have independent or rigorous assessment processes with recommendations to my knowledge. We are in the process of getting those guidelines signed off with ministers, so I cannot say that this is actually in place, but that is the intention.

Mr TANNER—When the ministerial council made the decision, or communicated the decision—and I suppose you may not know the answer to this because you were not in the saddle at the time—was any reason given as to why recommendations would not be put with respect to these grants for GGAP round 1 and GGAP round 2? Was there any explanation as to why that would be the case?

Dr D. Wright—I am unable to answer that at the moment. I do not have that information with me.

CHAIR—Do you need an answer provided?

Mr TANNER—If it is possible, I would appreciate finding out whether there was any record or a minute of a meeting saying why. I have one final question to the Audit Office: how usual or unusual is it for grant programs, in your experience, to involve ministers making decisions without some kind of recommendation from the department or the authority involved that is actually processing the grants?

Mr Cochrane—We looked at this program and all other grant audits against the better practice guide, which basically gets to: have we done a proper assessment, and against predetermined criteria, so we get the fairness in analysing grants, and then when the grants go to the minister. I guess in the majority of cases we would expect some rating against that assessment, and then the minister would look at that and make a decision as to whether they were going to go for the rating or some other way. So it is more normal that proper assessments go to the minister with some sort of ranking.

Mr TANNER—Can any of the Audit Office people here today cite me other examples where you have grants being decided by ministers without a recommendation?

CHAIR—That might be out of the confines of this report—

Mr TANNER—No, it is not.

CHAIR—There are a number of members with questions and we have—

Mr TANNER—Can anybody cite me another example of this? For the benefit of Hansard, the officers are shaking their heads.

Senator WATSON—I had a threshold question in relation to a large amount of money, \$1 million, that was essentially over seven programs. Can the committee be assured that all of this expenditure was in accordance with the terms and conditions of the funding agreements?

Dr D. Wright—With the exception of two projects which the ANAO has highlighted in the report, through a whole range of audits no other problems have been found with the administration of grants programs.

Senator WATSON—What amount of money was involved in terms of those two programs where it was not in accordance with the terms and conditions of the funding arrangements?

Dr D. Wright—There were two projects under two separate programs. I am not sure whether I have that information with me. I recall one project was under the Alternative Fuel Conversion Program where—to go back to ethanol—the program guidelines did not say that ethanol was precluded, whereas the legislation did, and a grant did proceed. It was identified that this was not in line with the program legislation and I believe a total of \$18,000 was spent before that error was identified and corrected. The ANAO identify one project under the Renewable Energy Commercialisation Program and draw attention to the fact that the grant was approved when the project was near to completion. However, what the report did not say was that the grant application was received prior to any work commencing on the proposal, so the payment of funding and the approval of that project was in order, but they do raise it in the report, so I thought I should mention it.

Senator WATSON—The audit appeared to be concerned about risk management. Given some uncertainty about effectiveness and cost efficiency in relation to emerging technology, is it possible to accurately develop comprehensive interim milestone targets?

Dr D. Wright—I possibly covered that in my earlier response to the question from the chair. I do not think that I can add to that. Interim targets can be developed on operational milestones. They are on a whole range of our programs and industry portfolio programs: the delivery, the installation, the commissioning of certain elements. Whether a technology or a process is going to work fault-free from day one, no one can guarantee that. What you can put in place is as many checks and balances as possible.

CHAIR—Senator, I think the report recognises that very challenge you refer to.

Senator HOGG—Just briefly on the five recommendations made by the ANAO, I note that you have approved them, and that is all well and good; how are we to see that translated into practical terms? Are the recommendations now being implemented? It may well be that you need to take it on notice?

Mr Bamsey—We did come prepared to answer that question, Senator. The brief answer is that we are implementing each one of them. I can give you those details. Would you like me to read quickly through my notes to—

Senator HOGG—If you have a lengthy answer, it might be easier if you would table the answer and it can form part of the record. I really think we need to know that.

Mr Bamsey—I think we can run quickly through it, and maybe Dr Wright would—

CHAIR—We have about three minutes left, and there are other people to ask questions, so if you are prepared to table it as an exhibit?

Mr Bamsey—These are not really in tabling form, these are just notes for us. We could prepare a—

Senator HOGG—Could you take that on notice?

Mr Bamsey—Certainly; we would be very happy to do that.

Senator HOGG—Thank you. The second question relates to internal processes. Do you have an internal audit committee that is reviewing your own processes to see that the implementation of the recommendations is taking place in a proper manner?

Mr Bamsey—Because we are now part of the Department of the Environment and Heritage, the department's audit committee has jurisdiction over our processes, but the executive of the AGO reviews implementation of the audit from time to time; it is one of the tasks that is on the executive's agenda because it is such an important one. We attach particular importance to implementation of the recommendations.

CHAIR—We have run out of time.

Senator HOGG—My last question goes to the annual report and a number of shortcomings that have been drawn to our attention, where it is said that targets in place for programs have not been consistently reported against; trends and changes over time are not always obvious; risks

and challenges are not well articulated; and, where targets do exist, there is a lack of actual program performance data to track Australia's progress or otherwise against the targets. How is that being remedied now by yourselves?

Mr Bamsey—We will cover that in the response on implementation. Briefly, we set new performance standards last year with last year's PBS, and Dr Wright is just pointing me to the pages—188 to 190 in our PBS.

Senator HOGG—So that is for the 2004-05 PBS?

Mr Bamsey—Yes.

Senator HOGG—We should therefore see it in this year's annual report?

Mr Bamsey—You should, yes.

Senator HOGG—That is all I want to know, how we can—

Mr Bamsey—Henceforth, of course, we will be reporting as part of the department.

Ms GRIERSON—My questions are to the CSIRO. Could you tell us how much involvement you have had in advising on any base data on greenhouse emissions or targets, and how these can be measured and achieved, and also on the effectiveness of programs—whether the science suggests that that is a program that is worth spending a lot of money on—and what is your view of your involvement?

Dr J. Wright—I will address the energy sector and perhaps pass over to Dr Bates for the climate side. One of the good things that have come out of the programs that we have been involved in with the AGO is that there is a pretty rigorous assessment process. For instance, future fuels and their effectiveness or otherwise on greenhouse gas reductions would be an example of where we have helped set up the baselines for these sorts of things. We have also consulted quite regularly with the AGO on the effect of future technologies on their greenhouse gas limiting effects. So there has been quite a strong dialogue between CSIRO and the AGO in the energy area, and we believe this will continue.

Dr Bates—I think from the climate science side there has always been extensive consultation with the AGO. I cannot give you the exact date, but I was a research team leader within the particular division of the CSIRO for 12 years before taking on this job, and it would be at least seven or more years where the AGO had a strong accountability arrangement with CSIRO. We have to submit an annual report; we also have an annual meeting where we defend the work we have done. We do acquit for moneys that have been spent and return moneys that are unspent.

Ms GRIERSON—What if the Audit Office did find that performance measures were not particularly trackable and not perhaps as transparent as we would like when assessing whether we were getting value for our money—and it is public money. I find what you have just said does not marry very well with the audit report because their performance measurement is not active, it is not rigorous, and perhaps it is not as linked to the targets that we would have in the program set-up. How would you comment on that?

Dr Bates—In terms of CSIRO, over the last 12 months to two years we have instigated a form of risk assessment with any project we undertake. In the past our arrangements with our clients have basically been seeing out milestones and, as far as I am aware, particularly on the climate science side, they are written in a way in which performance can be measured.

Ms GRIERSON—So it might be more important to hear from our other guests.

Mr Bamsey—We will cover this also in our response on implementation. I suppose very briefly, we think we are at world's best practice on measurement, but it is a very difficult task; it is a task which probably will never be completed in the sense that we will never be able to identify every last tonne, but we have put a very considerable effort into improving our practices since the audit.

Ms GRIERSON—How have you responded to the third recommendation—that is, bringing in an integrated performance information system for measuring greenhouse gas abatement? How much progress have you made on that?

Mr Carruthers—The Australian Greenhouse Office executive led a process through last year to develop a comprehensive response on that recommendation and, last December, agreed a series of recommendations on the specific actions that would take place. I think that all these have been put into effect. They provide for standard methods and tools across all AGO programs.

Ms GRIERSON—Has that been implemented?

Mr Carruthers—Yes, it is being implemented; a deal of it was already in place, it is being enhanced and it is being added to.

Ms GRIERSON—I come from a city that can tell you its greenhouse emissions annually, so I find it very difficult that there has not been perhaps a rigorous application of those measures.

Mr Carruthers—If I could just clarify that: through the Australian Greenhouse Office, Australia produces annually a national inventory of emissions at the national level, now for each of the states, and it also conducts annual assessments of the performance of individual measures in terms of that emission—

Ms GRIERSON—Are you happy that that shapes those programs?

Mr Carruthers—Absolutely, it does. Regarding the CSIRO, since that was a specific focus for your earlier question, I might just mention as an example, in terms of the technical strength of this, that the collaborative work between CSIRO and the AGO in this field last year won the prestigious CSIRO chairman's medal.

Ms GRIERSON—It would be a pity if that resource was not used well.

Ms BURKE—Just following on from that, whilst we have not ratified Kyoto, we are a signatory to it. Given the tenor of this report, do you feel we are on track to meet our targets and can demonstrate we have met our targets under that protocol?

Mr Bamsey—Our latest projections confirm that we are on track to meet our target.

Ms BURKE—Did you take on board some of the criticisms or the recommendations coming out of this report insofar as actually tracking those targets?

Mr Bamsey—As I said earlier, measurement is something that we think we are at world's best practice on generally, but we will continue to improve indefinitely, and we will keep pushing. As Mr Carruthers said, we have put enormous effort in over the last 12 months, and we will continue to do so.

Ms BURKE—Do you aggregate everything—not just the projects you are doing? If the states are doing something or there is a little project being run by a local council, is that data contained together somewhere?

Mr Carruthers—That is correct, and each year we publish the emissions projections with the summation of that story. It is available on the internet site or from the AGO, or we can give you a copy if you would like the latest issue.

Ms BURKE—Yes. Given there are a lot of things out there, are we getting the best bang for our buck with the projects that are being chosen under this program?

Dr D. Wright—As we said, all the greenhouse programs were reset as part of the energy white paper in the budget last year.

Ms BURKE—I understand that is your political answer, but what I actually asked was—

Dr D. Wright—They are new programs, and we are in year 1 of those programs. All of the AGO's programs prior to this audit were fully evaluated. Some of the issues that the deputy chair has also raised in terms of evaluating the effectiveness of the programs is that those programs which are not purchasing abatement but developmental—they are developing technologies—and the impact of those technologies will depend on uptake, which is long term, and that uptake is beyond the timescale of the programs themselves. A number of these programs kicked off in 1999 and that is too early—GGAP projects can take up to seven years from application to delivery. We are still not there yet in terms of being able to evaluate whether they have delivered what they said they would. So that is one of the reasons that it is difficult to measure the prospective effectiveness of programs. With those which immediately purchase abatement—energy efficiency programs—you can do that straight away, but others have a much longer tail and, whilst we can measure it when it occurs, the commercialisation uptake is actually quite a difficult area, and there are other factors that come into play in addition to the greenhouse benefits.

CHAIR—Should members have further questions they wish to put to the organisations, they can submit those through the committee and the responses can be considered in the report. Should Hansard have questions or require clarifications from those who have given evidence today, they will contact you. I would remind you that the questions taken on notice today from members and senators will be submitted and taken as part of the proceedings. On behalf of the committee, I would like to thank all of the witnesses who have given at the public hearing today.

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

That this committee authorises publication of the transcript of the evidence given before it at public hearing this date.

[11.41 a.m.]

BEDE, Mr Martin John, Internal Review Manager, Dairy Adjustment Authority

GIFFORD, Mr Daryl Mark, General Manager, Operations, Dairy Adjustment Authority

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

LANGDON, Mr Duncan, Group Manager, Corporate Services, Dairy Australia Ltd

MEERT, Mr John, Group Executive Director, Australian National Audit Office

MORTIMER, Mr David, Executive Manager, Food and Agriculture Division, Department of Agriculture, Fisheries and Forestry

MUSGRAVE, Mr Patrick Hoyle, Chairman, Dairy Adjustment Authority

STANDEN, Ms Sally, Acting General Manager, Meat, Wool and Dairy Branch, Department of Agriculture, Fisheries and Forestry

CHAIR—I welcome the witnesses from the Australian National Audit Office, the Department of Agriculture, Fisheries and Forestry, the Dairy Adjustment Authority and Dairy Australia Ltd to give evidence on the Audit report No. 36 2003-04: *The Commonwealth's administration of the dairy industry adjustment package*. 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 the parliament. Evidence given today will be recorded by Hansard and will attract parliamentary privilege. We will run today's session using a roundtable format with witnesses from different agencies appearing together. I put on the record that I have dairy in my electorate, so I have a very strong interest in this, but that is not to say I have any conflict in going through this inquiry.

However, I ask participants to remember that 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 the committee. It will not be possible for participants to respond directly to each other. Secondly, given the short time available today, statements and comments by witnesses should be relevant and succinct. The matters on which the committee might wish to focus on are: the implementation of the Dairy Industry Adjustment Package; governance; delivery of the program; discretionary payments and management of the Dairy Structural Adjustment Fund. I would remind the media of the parliamentary guidelines which require fair and accurate reporting of these matters.

Resolved (on motion by **Senator Hogg**):

That filming of the proceedings be allowed.

CHAIR—I ask Dairy Australia to kick off with an opening statement.

Mr Langdon—I have worked in the finance team of Dairy Australia, previously the Australian Dairy Corporation, for over eight years. I have been involved with the Dairy Structural Adjustment Fund from a finance perspective since the beginning of the fund. I would like to note that Dairy Australia became the trustee of the Dairy Structural Adjustment Fund on 1 July 2003, at the time the two industry bodies were merged and corporatised.

Dairy Australia agrees with the recommendations as they relate to Dairy Australia, and this agreement covers the audit report's documented understanding of Dairy Australia's responsibilities—for example, paragraph 53 of the summary, which states that Dairy Australia does not have the authority to refuse to pay invoices on the grounds that they do not represent value for money; and, secondly, the many positive and/or complimentary references to Dairy Australia's management of the Dairy Structural Adjustment Fund, such as ensuring the fund remains solvent—paragraph 63—and there is a sound framework for managing the fund—paragraph 47.

As our formal written submission states, Dairy Australia is working with the department on the necessary changes to the statutory funding agreement in order to report on the performance measures from all agencies able to draw administrative moneys from the fund. These changes include Dairy Australia providing specific reporting of administrative moneys to the department on a quarterly basis and reporting performance outcomes in the Dairy Australia annual report.

CHAIR—We will now move on to the Dairy Adjustment Authority.

Mr Musgrave—Just as a bit of background, I was appointed Chairman of the Dairy Adjustment Authority only in June 2000 after the first chairman resigned. At that stage we got the application form sent out to the farmers, but there was a lot more to do before we were able to start the payments, which had to start soon after the application forms were received. The deadline for that was set by legislation as 17 August, and there was an expectation in the industry that everybody would be paid out a fortnight later. I can vouch for the fact—and I am an independent businessman, I have been in the corporate sector most of my life, although I have been on the board of the Australian Meat and Livestock Corporation and I chaired the audit committee of Meat and Livestock Australia for the last five years until last year—there was very little time to get this whole project done. It is only due to the tremendous cooperation we had with the department of agriculture, the Australian Dairy Corporation, as it was in those days, and other agencies that we managed to get the job done.

So I can certainly say that, as an outsider and not a bureaucrat who has come in to make this work, the ANAO report performance audit has been an excellent report. We welcomed the performance audit report. We had good cooperation with the ANAO on the production of our bit anyway, and it has been a very open and transparent process. I think there are a lot of lessons to be learned for the future as to the way in which these sorts of things are tackled—if ever such a large scale project is ever again tackled, which I am not sure about. Certainly, the need for more comprehensive planning that came out of the ANAO report is absolutely vital for this type of thing, and to identify potential obstacles, because we had a lot of obstacles to overcome to make this thing work.

This time pressure impacted on a lot of crucial issues like governance, the reporting of KPIs and stuff like that. It was a very difficult job, which was only done with the support of excellent

staff and with good cooperation from other agencies. We were very pleased at the end of the day that the ANAO's overall conclusion was that the Dairy Industry Adjustment Package was implemented consistently with government policy, because there was a real danger at one stage that it might not have happened in line with government policy. That is all I would like to say. We certainly welcome the report—it has been a very valuable analysis.

CHAIR—The Department of Agriculture, Fisheries and Forestry?

Mr Mortimer—The Department of Agriculture, Fisheries and Forestry wishes to reinforce that it has agreed to the recommendations in the ANAO report and is taking action to progress them to ensure that they are put in place. The department has undertaken to carefully consider and implement all recommendations. Specifically in relation to recommendation 2, the department has taken legal advice and has consulted with ANAO in order to determine the most appropriate course of action to implement this recommendation. Whilst the recommendation refers only to amending the statutory funding agreement between the Commonwealth and Dairy Australia, the department has determined it necessary to also amend its program protocol with Centrelink, which administers other parts of the program, and to establish a memorandum of understanding with the Dairy Adjustment Authority. These measures should ensure a process which allows for greater transparency and clarity in the request and expenditure of administrative moneys from the Dairy Structural Adjustment Fund, which fundamentally addresses this objective of the recommendation. The department has closely consulted with Dairy Australia, Centrelink and the Dairy Adjustment Authority in actioning this recommendation, and it acknowledges their cooperation.

The only outstanding issues in regard to the department's response to this recommendation is the finalisation of all performance measures, most of which are already agreed. Once agreement is reached on the final indicators, the amendments to the statutory funding agreement with Dairy Australia and the agreements with other agencies can be finalised. The department expects that all matters in regard to implementing the recommendations will be resolved within the next month. Recommendation 3 also involves amendment to the statutory funding agreement; the wording of this amendment has been agreed between the department and Dairy Australia, and will be finalised in conjunction with the other changes to the statutory funding agreement.

CHAIR—The Auditor-General's Office?

Mr Meert—We do not have anything at this stage, Mr Chairman.

CHAIR—Thank you. I will kick off with a couple of questions. The first concerns the length of time that dairy deregulation was discussed ahead of any of this program. I am very concerned that there seemed to be lack of time in preparation for establishing and implementing programs, and in particular there did not seem to be the time for the Department of Agriculture, Fisheries and Forestry to negotiate a formal agreement with the Australian Dairy Corporation for the preparatory work. Given that this was on the table for years in advance and closed quite quickly, can somebody explain that to me and explain why, in that same time, the application form was to such a level that only 14 per cent of the farmers, groups or organisations were able to put in applications without there having to be a lot of further detailed explanation? I understand that there was not the time again for the testing of the application form within the farming community. Perhaps you would like to answer those questions.

Ms Standen—In terms of the agreement with the Australian Dairy Corporation and the development of deregulation, it is true that the issues surrounding deregulation were discussed for quite some time before it was actually implemented. However, from our perspective in the department, there was no real indication that deregulation would actually take place from 1 July 2000 until the state governments agreed to do so at a meeting in March 2000. So, from our perspective, it was not really an issue that was driven by the Australian government; we were simply there to provide a package of adjustment assistance should the states agree to deregulate. In response to that question, there really was not that much time available to us. Notwithstanding that, we accept what the ANAO report has said in terms of, for future programs of this nature, ensuring that we have better planning processes in place so we are able to implement such programs more effectively.

CHAIR—On the issue of the ramifications?

Mr Musgrave—When the DAA was formed, which was end of March, the application form had already been road-tested, so-called, through the industry, so we inherited a document which we were told had been tested. That document then was changed quite a lot because the then chairman was a lawyer, and was very conscious of the legal problems there could be if the application form did not have this or that caveat. We spent hours and hours—in fact, we spent so much time on the application form that nothing else was done, which accounted for some of the problems that we had later on. The application form became a bit more unwieldy than the one we inherited, and that, I have to accept, was not sufficiently road-tested, because there wasn't time. We had a deadline; we had to get the application form out. But I do not think anybody foresaw that there would be quite so many errors and omissions, and that we would need to get so much information. I guess that was part of that rosy optimism that one has with these projects—that you are going to have a computer system, you are going to have an application form which is processed through the computer, and it will all work out. So there was some optimism attaching to that, and I think with time again and more time for planning, it would have been improved.

CHAIR—Mr Musgrave, it has been highlighted in the report that the Dairy Adjustment Authority took on a greater responsibility for delivering the package than actual members had originally had communicated to them. Where do you see this failing, and what steps had to be taken to overcome these problems?

Mr Musgrave—The members of the authority ended up carrying out executive responsibilities because the only way we were going to get the project off the ground was to work with management. We had to recruit management from scratch, basically. There were not as many resources available through the ADC as was originally envisaged in the act, because the ADC was having a sunset clause put on it and was going to be privatised. There were not a lot of redundant staff who could become involved in this project. So we had to start with a small operational staff. When the—all I can describe it as—real trouble started and we discovered that we were not going to be able to process as fast as we had hoped, we had to take on a lot more staff to help sort out the problem. But because there were no precedents for this, nobody had done an exercise like this, the board had to work very closely with management to make the whole thing work. Instead of being a situation where a board is completely independent of management and the management reports to the board, I had no alternative but to assign different board members different executive responsibilities to make sure that we could do things

within the time frame. So you did not have a situation of management doing things, reporting to a board; there was no time to do that, so the members had to take on individual responsibilities, which is not the best in terms of governance, but when you have a job to do, you have to do it.

CHAIR—I am glad you raised governance. My final question before I hand over to other members of my committee is that I am concerned that there were powers under discretionary payments that prohibited the claim back of payments made in error. This would seem rather unusual. Do you have any comments on that?

Mr Musgrave—Well, not only discretionary payments, the whole of the DSAP scheme entailed that if the DAA made a mistake when it made a payment, it could not claim the money back. So we could not claim our money back if the DAA made an error. That was enshrined in the act which, as you can imagine, coloured a lot of our thinking. We were accused in the ANAO report of being over-cautious—it is unusual for auditors to say that you are being too cautious. This was not only the discretionary chairman; this covered the whole of the scheme.

CHAIR—What level of payments have been made in error?

Mr Musgrave—Have been made in error?

Mr Gifford—There have been 20 entities paid in error to the value of \$242,000.

CHAIR—A total of \$242,000 over 20 entities. For what reasons were the payments made in error? The question is, was there falsification in the application or just misinterpretation by the authority in the application?

Mr Gifford—We misinterpreted or processed something incorrectly. There would have been information—a letter or something came with the application—which had not been considered appropriately as the processing was taking place and had it gone through. I think one of them referred to was a share farming arrangement where there was 25 per cent capital contribution. We got that the wrong way around as to the capital contribution made by the farmer or the sharefarmer, and that means we calculate an entitlement differently.

CHAIR—In that individual case, what was the value of the overpayment?

Mr Gifford—I cannot tell you the individual cases, but I think the highest overpayment for any particular entity was around \$38,000.

CHAIR—To the Audit Office, is it unusual to have claim-back provisions excluded in an act?

Mr Meert—To the best of my knowledge, it is unusual.

CHAIR—In that act, which obviously was canvassed with the department in the first place, was it the recommendation of the department that this provision be put into legislation?

Ms Standen—It was specifically to be included in the legislation because we were aware that there would be a lot, and in the end 75 per cent of entitlement holders used their payments, which are paid in 32 quarterly instalments, in order to receive up-front loans from financial

institutions. We had received advice that financial institutions would be unlikely to agree to loan arrangements if they thought that the entitlements could possibly be made in error and then therefore taken from them.

CHAIR—I suppose that is in part what has led to today's report in the *Australian*, which has been tabled and accepted by the committee, about farmers using their grants to pay off debt rather than for upgrading and improving their facilities. So, you are saying to this committee that they were using their grant to pay off a loan that they had used to redevelop their property?

Ms Standen—No, what I am saying is that each entitlement holder receives an entitlement which they get in 32 equal quarterly payments up until July 2008. What 75 per cent of those entitlement holders did was go to banks, say, 'I have got a guaranteed payment of this amount for the next eight years, I want to borrow against that amount.' So basically they take a slightly reduced up-front payment and they pay their money back every three months to the bank using those payments.

CHAIR—Are these payments and grants considered as taxable income?

Ms Standen—Yes, they are.

CHAIR—You could still get some of it back!

Mr BROADBENT—What percentage of the overall payments were overpayments, or what percentage were they of the overall payout?

Mr Gifford—The overall payout entitlements is \$1.63 billion, and it is \$242,000.

Mr BROADBENT—Can you give me a percentage on that?

Mr Gifford—It must be less than 0.01.

Mr BROADBENT—Can I ask the Audit Office to give me a percentage on that? Just an estimate would be fine.

Mr Greenslade—About 0.1 per cent.

Senator HOGG—Have you sought to recover any of the overpayments to any of the entities?

Mr Gifford—There is an important process in place.

Senator HOGG—Even though that was not within the confines of the act?

Mr Gifford—No, if someone had received money in error, we would write them a letter saying an error had been made and, as in our legislation, we would request them, on the basis of fairness, to pay it back. We would also advise them that in the legislation there was a provision where, if the DAA had made an error, they could seek their own legal advice and interpret the act accordingly. I have to report that we did not receive any payments back from all the letters we did send out.

Senator HOGG—That is my very point.

Mr Gifford—We had a good process in place to—

Senator HOGG—You had a process to recover, but in spite of your best efforts to recover, no-one repaid any of the amounts, of which I understand the largest was \$38,000.

Mr Gifford—That is correct.

Senator HOGG—What would have been the average overpayment made?

Mr Gifford—I could take that on notice and come back to you, but off the top of my head, probably \$12,000, but some of them got only \$1,000.

Senator HOGG—Some would have got \$1,000?

Mr Gifford—That is right.

Senator HOGG—So it would not have had a profound impact on them over the 32 quarterly periods?

Mr Gifford—No. We were writing to ask them to return \$64 a quarter.

CHAIR—Could you provide a list of all of the overpayments that make up the total of over \$242,000 so that they can be included in the record?

Mr Gifford—Yes.

Senator HOGG—It is the principle involved here that there has been an overpayment, the authority has done the correct thing in seeking to have that money repaid, and people have thumbed their nose at the authority and failed to repay it. That is an abuse of the system. Further, on the access by the ANAO to clients of Dairy Australia, why were the Commonwealth procurement guidelines, which I understand allow for the ANAO to access contractor's records and premises, not included in any arrangement that was put in place?

Ms Standen—When we developed a statutory funding agreement with Dairy Australia, when the Australian Dairy Corporation was privatised, our legal advice was to incorporate access by the Commonwealth or any of its representatives to Dairy Australia premises. We considered that to be adequate. However, the ANAO has recommended that we amend that statutory funding agreement to specifically provide for the ANAO to have that access, and we will do that.

Senator HOGG—No, I accept that. But I understand that within the Commonwealth procurement guidelines, the recommendation is for the ANAO to have that access. We deal with another department which is notorious in terms of access to the ANAO, and we won't mention their name here today to protect the innocent, but it is absolutely paramount to have the ANAO have that access. It just seems to me, if it is part of the procurement guidelines, why should we exclude it?

Ms Standen—I understand that. However, in relation to what other departments may have with service providers and the statutory funding agreement between the Commonwealth and Dairy Australia, there are some significant differences. Dairy Australia is not just a company that is contracted to perform a particular task for the government and then it goes away after it has done that task: the statutory funding agreement is based on a long-term relationship with a body that undertakes marketing and R&D services on behalf of dairy farmers and on behalf of the government. Further, in relation to its management of the dairy structural adjustment fund, it is really an agent of the Commonwealth for that purpose. For that reason, we did not see that it related strictly to the procurement guidelines. It was not just a vague consultancy that a lot of government departments have with individual companies. So we actually examined that and thought it was different. However, the ANAO's recommendation is that, despite that, there should be a separate clause for the ANAO, and we accept that.

Senator HOGG—I am pleased to accept it because I am a great supporter of the ANAO and their ability to access the records in circumstances such as this. In terms of the inherited application form, Mr Musgrave, that you had presented to you, who put the form together in the first place, do you know?

Mr Musgrave—The ADC together with the industry—the Dairy Industry Council. They put the form together with the ADC and road-tested it.

Senator HOGG—Why was it not possible to poach an existing form from another area and modify it to suit your needs such that you wouldn't run into all the difficulties that the form seemed to run into in the end?

Mr Gifford—There was no precedent. This is quite a new scheme and it is a new operation. The questions we had to ask were not the usual questions you would have to ask—about milk supplies; did you have a shed on your property that you were milking from; the number of partners you have in your enterprise—there was no pre-existing form out there for that. However, we did follow the principles of how you would lay out a form—there was just an awful amount of specific information we actually required to get someone across the line.

Senator WATSON—I refer not to payments in error but to fraud. The DAA prepared a fraud control plan. Was any fraud perpetrated, and if so, have any moneys been recovered?

Mr Gifford—No, there has been no fraud perpetrated. We had a fraud control plan, and we had fraud training, and quite a culture about fraud awareness and risks. One of the great things we had to our advantage was the milk supplies from the companies which allowed us to manage quite well the control of the application forms and make sure entitlements were correct. Also, we had to make sure we had controls within the organisation and with our service providers to minimise risks and minimise fraud. It is my responsibility to report to the board any fraud matters, and I report that we have not had any fraud matters.

Senator WATSON—That is good. Did you detect any schemes of fraud, even though no payments were made?

Mr Gifford—Yes, we had a couple of queries brought to us that some people were indicating might look like fraud. We investigated those cases and concluded that there was no fraud or error

whatsoever. For example, it might be one farmer reporting on another farmer saying, ‘ Why did this farmer get a payment?’ I do not believe they ought, in those circumstances, and we would check that application and file and follow through, and they all turned out to be okay.

Mr Bede—I understand that both schemes had very strong powers to cancel where there was a false statement made to the authority. The statement did not have to be intentional—just when incorrect information was provided by the applicant, there were powers to cancel. So in terms of the ability to recover moneys in the case of fraud, a deliberate misstatement, the powers are very strong.

Senator HOGG—How many were cancelled?

Mr Gifford—Under the DSAP scheme 1,000—no, sorry. That is incorrect.

CHAIR—Maybe you would like to provide that to the committee as an accurate number?

Mr Gifford—No, 600 comes to mind, around that—I would have to check it.

CHAIR—Rather than guesswork, perhaps you would provide that later.

Senator HOGG—When we talk of cancellation, is that cancellation after approval had been given?

Mr Gifford—There are several categories of cancellation.

Senator HOGG—Can you therefore elaborate for us what you mean by cancellation?

Mr Gifford—First of all, when we are producing a notice of decision—we might have a notice already out there, but that person’s entitlement has not already been granted because we have to receive a declaration from the entity back to us, and they must meet certain further conditions before we grant an entitlement. We might pick up in that period that an error had been made—one partner might have been left off or something. We would identify that first of all and we would cancel the units. In another case, once entitlements are issued, they also go into another process of cancellation on false statement.

Ms GRIERSON—What data checking process did you go through to check that those claim forms were accurate? Did you do a checking process for all of them, that you were getting the right information and correct data about—

Mr Gifford—There is an enormous amount of data across the whole spectrum. The key piece of the data is the milk production, and milk production is brought in from the companies to the Australian Dairy Corporation who prepared a database of milk. That was then passed on to us as the authority, and that was a key piece of the production—

Ms GRIERSON—So you did do data matching?

Mr Gifford—Yes, we would match with that, every time. No entity got out of the system unless they matched with the milk database, and that was a great control process we had. The

board also had the auditors audit that milk production. Then on the application form, some of the information we had to take on face value, such as the number of partners they put down, the names they put down, and whether they ticked—

Ms GRIERSON—So you could have data matched that with perhaps other agencies?

Mr Gifford—No. One thing the industry did not know, and no one knew in the dairy industry was who owned all the farms and how many entities owned the farms. We were not going on partnerships or companies as such. That information was new information that had come in. However, the board sent out various auditors to pick a sample and they audited those people's returns and the information they had sent in.

Ms GRIERSON—But you did not either match with ATO or any other agencies for structures of companies?

Mr Gifford—No.

Ms GRIERSON—One of the problems that the audit found was in governance and therefore accountability, and the fact that you had no objective auditing process. So all your auditors were chosen from within your own organisation and there was insufficient separation from management. Would you agree, and what were the consequences of that?

Mr Musgrave—The consequences were not good. Governance issues have to be taken seriously. Let me say at the outset that the board discussed this matter very seriously, and all of us on the board were very conscious of the governance issues. All of us have had a background in audit—for example, I chaired the audit committee of Meat and Livestock Australia for five or six years, from 1998 through to the end of 2003 when I retired from the board. So I have been very familiar—and I was an independent chairman; I was not chairman of the board. The issue I faced, as chairman, having taken over late in the piece to get this project working was that we decided the management would have to be responsible for setting up systems which would then be audited on the run almost. You know, 'Here's a policy, here's how we're going handle it; Let's have an internal audit to check it out straight away.' Normally an audit committee—I can vouch for this—meets four times a year, and checks on things that have been going on for some time. We did not have the luxury of that time. We had to do everything straight away, check it out from an audit point of view, and almost everything we did from a legal point of view, too, as we developed procedures. As Daryl and his team developed procedures, they came to the board; we had an internal audit look at them and also a legal representative check everything we did.

I decided that we would have an audit committee and it would meet concurrently with the board. We had board meetings once every week, sometimes twice a week. So, instead of an audit committee which was meeting four times a year, this was going to be an audit committee which would have to meet every time the board met. If we had a chairman of the audit committee and a chairman of the board, you can get a clash of responsibilities, particularly vis-a-vis the general manager who is trying to run the show if you have too many audit committee meetings going on. That is why audit committees usually meet only three or four times a year. We did not have the luxury of that time, which is why in fact we decided to do that after very much consideration. But having admitted that it's not the best practice in governance terms, the result of this has not shown anything from the ANAO report that was amiss or gone wrong. In fact, everything has

come out, as they say, consistent with the government policy. So I do not think there have been any adverse results, but had we had more time, we probably would have done it a different way.

Ms GRIERSON—One consequence might be administration costs that are higher than the target set, that more money was spent on getting it right or exercising the process rather than testing it first or having some independent assessment of it.

Mr Musgrave—That is a factor of the time involved. There was a shortage of time, not the fact that we had an audit committee—

Ms GRIERSON—We understand the time pressures but we also know that accountability for public moneys is paramount. Discretionary payments had no caps at all. Do you feel that could have been changed in some way?

Mr Musgrave—No caps?

Ms GRIERSON—ANAO say that the dairy structural adjustment fund does not allow DAA to refuse to pay invoices that do not represent value for money. So you had to pay if they were eligible, no matter whether it was a poor use of the moneys, you had to pay it. Further, it did not place a cap on administration costs, and then you had a lot of discretionary payments—the administration costs for those payments—

Mr Musgrave—For the discretionary payments?

Ms GRIERSON—Yes.

Mr Gifford—There is a little confusion occurring here. We have an entitlements act, a discretionary payment entitlement—

Ms GRIERSON—Yes.

Mr Gifford—What you are referring to there and the ANAO refer to is more that payments associated with administration would go to make a call on the fund—

Ms GRIERSON—Yes, okay, now we're right.

Mr Gifford—There is nothing capping the fund. That is different from determining payment—

Ms GRIERSON—How much would that have represented, what we would see as redirection of funds that you were allowed to divert to administration?

Mr Musgrave—Do you mean that we were allowed to spend on administration?

Ms GRIERSON—Yes, That is right.

Mr Musgrave—Well, the DAA did a budget every year which the department received. They knew exactly what we were spending, and we operated within budgetary guidelines.

Ms GRIERSON—Well, I am told that you did not, that you actually exceeded your guidelines in those administration costs.

Mr Musgrave—We went over slightly, but one of the reasons was the fact that the program was extended to the discretionary scheme, which was not envisaged in the original estimates of what the administration of the whole program would be.

Ms GRIERSON—All right. The other thing that is probably outside the audit is that there were other departments involved in the industry and perhaps supporting the industry—Centrelink and DOTARS would have been those. Did you ever have any discussions with them that there may have been some double-dipping or programs overlapping inefficiently, that you were wasting opportunities there?

Mr Gifford—We only have an interaction with Centrelink under the Dairy Exit Program in the dairy-type grants. We have a quite strong arrangement with Centrelink, and we have a pro-forma set out for when a person applies for the Dairy Exit Program. We follow a process where we must match our database and advise Centrelink when they contact us to ask whether this person has an entitlement to apply for the DSAP scheme. If Centrelink then goes through their processes and grants someone a Dairy Exit Program or a dairy-type grant, Centrelink would notify us and we would cancel out the unit. So we have a very close working relationship with Centrelink.

Ms GRIERSON—That was timely?

Mr Gifford—Yes, that is turned around in 48 hours.

Ms GRIERSON—My last question: it is very hard for us to judge whether this program is successful, and you said there are not many precedents. I have to say that we have had precedents in terms of the steel industry. And I have to say, having lost the steel industry in this country, the adjustment funds were not very useful. How are you trying to measure that you are actually getting an industry that is restructuring, repositioning itself, making the hard decisions and therefore will be sustainable in a more efficient way?

Ms Standen—I guess that the main process we have used so far was the independent evaluation of the Dairy Structural Adjustment Program and supplementary dairy assistance measures, which was finalised in very late December 2003. It looked at how efficiently the DAA made payments, generally what payments were being used for and generally how the industry appeared to be adjusting to deregulation, specifically referring to the DSAP and SDA payments. That evaluation found that the package has been highly successful so far in assisting farmers adjust to deregulation. However, the process of adjustment to deregulation is quite a long process, so we will have to continue to monitor how well the industry does adjust.

Ms GRIERSON—I think we all agree that the program has assisted farmers and it was necessary to assist farmers, or else it was going to be critical for many communities. I think we

would agree with that, but we do not know if we have got any sustainable industry coming out of it or whether we have new options being explored and supported.

Mr Mortimer—It is a long-term issue and it is a broad question. I think there are some indicators around which could be put together to suggest that the industry is structurally adjusting, and they relate to things such as the extent of production overall, the extent of exports overall and such like. We do not want to draw too long a bow—very different industries. The steel industry, as you say, is no longer here; the dairy industry is here. Indeed, the dairy industry is growing. There is data available to show that it is growing, that it is increasing its exports. It is going through an adjustment period which is entirely to be expected. That was the whole point of the package once a decision was made to move away from a preceding set of arrangements. Having said that, there is a lot of evidence that the industry is actually being very positive, increasing its competitive—

Ms GRIERSON—So you can assure us that the KPIs are there now to actually measure the success of this program in those long-term goals?

Ms Standen—In that the department works with Dairy Australia to constantly evaluate and look at how the industry is travelling in terms of its export capability and so forth. But there are always other factors that do come into play that can affect an industry's profitability or success and, most recently with dairy, the factors of low world prices, high Australian dollar and the rather severe effects of the drought have had an effect on the dairy industry. So it is not just a matter of looking at how deregulation may have affected the industry but how a whole range of factors affect the industry going on.

CHAIR—I fail to see how you think the industry is so rosy when the farmers in our region are still being paid less at the gate price than what it has cost to produce their milk.

Mr BROADBENT—That is an argument for another day and perhaps another meeting.

Ms BURKE—Given this is our second package—it has been ongoing and extended by the adjustments, can we guarantee that we are not going to see another dairy adjustment package?

Mr Mortimer—At the end of the day, that is a decision for the government. I do not think it is reasonable—

Ms BURKE—No, you are meant to be assessing whether this money is actually working towards the industry readjusting. I think it is a reasonable question: is the industry adjusting so that we will not have to have another package?

Mr Mortimer—I think there is some heavy evidence that the industry is adjusting, and that can be seen in a number of ways. Adjustment is a difficult issue. Adjustment essentially means that some farmers do better than others, and there is a whole pile of consequences from that, but it would seem that those sorts of issues are playing out. But the real issue is: does Australia continue to have a strong dairy industry that is producing, exporting and making a contribution to the economy at the end of the day? It might look different and operate differently to what was the case in the year 2000 when essentially state and ministers decided to change things and walk away from a set of arrangements, and a whole new set of circumstances had to be dealt with.

Mr BROADBENT—This is more of a statement. There will be always those in the dairy industry who are not able to receive with wisdom the benefits of the adjustment package. I think I have the largest number of dairy farms in my electorate; I am pretty sure I have. Not all of those are sharing in the benefits of national prosperity, but overall the dairy industry in Victoria is surging ahead. Now, I think there will always be difficulties right across Australia when you come to a package like this, and it does depend on where the individual farmer has actually used the benefits of the package that is put to them.

Senator WATSON—The deregulation appears to have been necessary, but it has been suggested that, despite the help to the dairy industry, the real long-term beneficiaries appear to be the supermarket chains. Can you respond to that?

CHAIR—That is not part of this inquiry.

Mr Mortimer—I am not sure. That issue is heavily debated, Senator Watson. Again I suppose I have to reflect on some of the comments I made earlier, that we are seeing a significant change in the industry and that is happening in terms of how the retail industry is operating, how the processing sector is operating, how farmers are changing and how those supply chain linkages are connecting. Where that comes out is impossible to say, but clearly supermarkets want to sell milk, so they will buy milk and farmers will supply to them. So, on that note, I guess we can be optimistic that there will be a future for the industry.

Senator WATSON—It all depends how they can control price.

CHAIR—Senator Watson, we just have to move on, sorry.

Ms GRIERSON—We do have out in the public arena that comment today that says farmers may have accessed this for inappropriate means—to use as income. You responded earlier that perhaps what could have happened in some instances is that they have used that guaranteed income to assist them with loans, but we do not know that those loans were assessed in restructuring.

Ms Standen—No, I think you misinterpreted what I was saying. Farmers made decisions to take the money in one lot rather than over quarterly instalments over eight years. It does not draw any conclusions as to what they were actually using that money for. There are a range of appropriate decisions that farmers would make in order to assist with the adjustment process.

Ms GRIERSON—How can you verify that?

Mr Mortimer—Essentially there was an issue there about farmers needing to be assured of continuing adjustment support in terms of their relationships with financiers, but beyond that I think it is important to pick up that the criteria of the program did not actually tell farmers what they had to spend money on. Nor did it say that you, a farmer, were better off paying off your debt, buying more cows, buying more land or upgrading your factory or processing. That essentially is a business decision that each farmer has to make in the light of their own circumstances. It is very difficult for government to make judgments as to whether they made a better choice or not. At the end of the day, that is something that the private sector operators, such as dairy farmers, need to make for themselves.

Ms GRIERSON—Yes, but one would also think that there may be other government departments advising farmers on how to make those best choices and best decisions. So, from what you are saying, the comment in the paper today stands—that certainly there is no assurance to us or to the public that the moneys were spent on restructuring?

Mr Mortimer—No. The money was spent by farmers to meet the criteria in broad terms. As was set out, that was related to the amount of milk they produced and the impact of the changes to the state based arrangement. That was the criteria. Clearly those changes were going to lead to a direct impact and change on the farmers. How the farmers then modified their business operations to deal with that is something that is very difficult for government to actually specify or give a sort of box on which to tick one thing or another.

Ms GRIERSON—So we depend on the industry to review the performance of the industry, the internal performance by its own members?

Mr Mortimer—No, I think it is an unreasonable conclusion. The outcomes are being assessed as we move through on a number of levels, and I do not think it is reasonable to say that industry is running it to suit themselves.

CHAIR—If I can conclude with one question to Mr Langdon, who has got off fairly light today, on the benefits to the dairy industry in Australia of the much-heralded recent free trade agreement with the US. In light of our structural adjustment packages, where do you see the direction on that going now?

Mr Langdon—The trade area of Dairy Australia is just one area that we focus on. We have part of the organisation focusing on international trade. The US FTA is just one example, but also there are many other areas in the domestic market arena and also in the R&D area, in manufacturing and farms. So it is very much one initiative that Dairy Australia was very happy with last year as an outcome that it worked on with the department. Again, it is just one of many projects that Dairy Australia is working on which numbers something like 400 or 500 projects.

CHAIR—Thank you. Members may have questions which they, through the committee, will put to you in writing, and your prompt response to those questions would be appreciated. Should Hansard require clarification of any terms, they will contact you. Importantly, we require the questions taken on notice from members and senators to be submitted and taken as part of the proceedings of today. On behalf of the committee, I would like to thank departmental officials for the evidence you have provided to the committee today.

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

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

Committee adjourned at 12.34 a.m.