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FINANCE AND PUBLIC ADMINISTRATION LEGISLATION
COMMITTEE

ESTIMATES

(Budget Estimates)

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BY AUTHORITY OF THE SENATE

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SENATE FINANCE AND PUBLIC ADMINISTRATION

LEGISLATION COMMITTEE

Wednesday, 26 May 2010

Members: Senator Polley (*Chair*) and Senators Cameron, Jacinta Collins, Kroger, Ryan and Siewert

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, Cash, Colbeck, Coonan, Cormann, Crossin, Eggleston, Farrell, Feeney, Ferguson, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Furner, Hanson-Young, Heffernan, Humphries, Hurley, Hutchins, Johnston, Joyce, Ludlam, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Pratt, Ronaldson, Scullion, Sterle, Troeth, Trood, Williams, Wortley and Xenophon

Senators in attendance: Senators Brandis, Cameron, Jacinta Collins, Cormann, Fierravanti-Wells, Forshaw, Heffernan, Humphries, Joyce, Kroger, Moore, Polley, Ronaldson, Ryan and Xenophon

Committee met at 9.10 am

FINANCE AND DEREGULATION PORTFOLIO

In Attendance

Senator Sherry, Assistant Treasurer

Department of Finance and Deregulation

Executive

Mr David Tune, Secretary

General Questions

Ms Jan Mason, Deputy Secretary, Asset Management and Parliamentary Services

Mr Colin Plowman, First Assistant Secretary, Corporate Services

Mr David Yarra, Chief Audit Executive

Mr Michael Burton, First Assistant Secretary, Financial and e-Solutions Group

Mr Brett Quester, Assistant Secretary, Financial and e-Solutions Group

Outcome 1 (Budget, FMG, Deregulation)

Mr David Martine, Deputy Secretary, Budget Group

Mr David Nicol, First Assistant Secretary, Budget Policy and Coordination Division

Mr Peter Saunders, First Assistant Secretary, Strategic Policy Division and Government and Defence Division

Mr David Weiss, First Assistant Secretary, Industry, Education and Infrastructure Division

Mr David de Carvalho, Acting First Assistant Secretary, Social Welfare Division

Dr Stein Helgeby, Deputy Secretary, Financial Management Group

Mr Tim Youngberry, First Assistant Secretary, Financial Reporting and Cash Management Division

Mr Marc Mowbray-d'Arbela, Assistant Secretary, Legislative Review Branch

Mr Lembit Suur, First Assistant Secretary, Financial Framework Division

Mr George Sotiropoulos, Assistant Secretary, Superannuation Branch
Dr Tom Ioannou, Assistant Secretary, Financial Framework Policy Branch
Ms Susan Page, Deputy Secretary, Deregulation Policy Division
Mr Peter McCray, First Assistant Secretary, Deregulation Policy Division
Mr Jason McNamara, Executive Director, Office of Best Practice Regulation
Mr Jonathon Hutson, Finance and Deregulation
Dr Greg Fenney, Branch Manager, Financial Management Group

Outcome 2 (AMPS, FMG, AGIMO)

Ms Jan Mason, Deputy Secretary, Asset Management and Parliamentary Services
Mr Rick Scott-Murphy, First Assistant Secretary, Property and Construction Division
Mr John Edge, First Assistant Secretary, Government Business, Special Claims and Land Policy
Ms Stacie Hall, Assistant Secretary, Government Businesses Advice Branch
Dr Stein Helgeby, First Assistant Secretary, Financial Management Group
Mr John Grant, First Assistant Secretary, Procurement Division
Ms Laurie Van Veen, Assistant Secretary, Communications Advice Branch
Mr John Sheridan, First Assistant Secretary, Agency Services Division
Mr Graham Fry, First Assistant Secretary, Policy and Planning Division
Mr Philip Smith, Branch Manager, Insurance and Risk Management Branch

Outcome 3 (AMPS, AGIMO, FeSG)

Ms Jan Mason, Deputy Secretary, Asset Management and Parliamentary Services
Ms Kim Clarke, First Assistant Secretary, Ministerial and Parliamentary Services
Ms Suzanne Pitson, Assistant Secretary, Entitlements Policy
Mr Greg Miles, Assistant Secretary, Entitlements Management
Mrs Kim Baker, Acting Assistant Secretary, Client Services
Ms Yvette Sims, Acting Assistant Secretary, Accountability and Reporting
Ms Maree Faulkner, National Manager, COMCAR
Mr Stephen Taylor, Assistant Secretary, Legal Services
Mr John Sheridan, Acting Deputy Secretary, Agency Services Division
Mr Michael Burton, First Assistant Secretary, Financial and e-Solutions Group
Mr Brett Quester, Assistant Secretary, Financial and e-Solutions Group

Australian Electoral Commission

Mr Ed Killesteyn, Electoral Commissioner
Mr Paul Dacey, Deputy Electoral Commissioner
Ms Barbara Davis, First Assistant Commissioner
Mr Kevin Kitson, First Assistant Commissioner
Mr Paul Pirani, Chief Legal Officer

ComSuper

Mr Leo Bator, Chief Executive Officer
Ms Cindy Briscoe, Deputy Chief Executive Officer (Business Services)

Australian Reward Investment Alliance (ARIA)

Mr Lochiel Crafter, Chief Executive Officer
Mr Peter Carrigy-Ryan, Chief Operating Officer

Future Fund Management Agency

Mr Paul Costello, General Manager, Future Fund Management Agency

MediBank Private Ltd

Mr Michael Sammells, Chief Financial Officer, Finance & Corporate Services

Ms Lucinda Bilney, Policy and Regulatory Affairs Manager, Government & Public Affairs

CHAIR (Senator Polley)—I declare open this meeting of the Senate Finance and Public Affairs Legislation Committee. The Senate has referred to the committee the particulars of proposed expenditure for 2010-11 for the parliamentary departments and portfolios of the Departments of the Prime Minister and Cabinet, Finance and Deregulation and Human Services. The committee may also examine the annual reports of the departments and agencies appearing before it.

The committee has fixed 9 July 2010 as the date for the return of answers to questions on notice. Under Standing Order 26, the committee must take all evidence in public session. This includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates hearings. If you need assistance, the secretariat has copies of the rules. I particularly draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised.

I welcome the minister, Senator the Hon Nick Sherry, and officers of the Department of Finance and Deregulation. Is there an opening statement, Minister?

[9.12 am]

Department of Finance and Deregulation

Senator Sherry—I do not have an opening statement.

Mr Tune—I do not either.

Senator RYAN—Before I commence with an initial question to the minister and the secretary, the opposition at a private meeting earlier expressed his disappointment that the committee refused to recall the Department of the Prime Minister and Cabinet for a further period of questioning with respect to the Home Insulation Program. As we often do in estimates, we came under significant time pressures, and the opposition is disappointed that the government members of the committee voted that resolution down so that we will not be able to continue examination of the Home Insulation Program—

Senator CAMERON—If you cannot get your act together, don't blame us.

Senator RYAN—and the Department of the Prime Minister and Cabinet's involvement in it.

Senator CAMERON—If you are such a rabble, don't blame us. What a pathetic, amateurish lot you are.

CHAIR—Thank you, Senators. Can I just—

Senator RYAN—Are we going to commence the day with calling senators to order?

CHAIR—I call all Senators, including Senator Cameron, to order.

Senator CAMERON—No wonder Malcolm Fraser ditched you.

CHAIR—I also place on the public record that we had a program that was agreed to by the committee which gave ample time for the Department of the Prime Minister and Cabinet. Obviously, Senator Ryan, you can express your disappointment at running out of time, but the timing and management of the opposition questions is up to you.

Senator Cameron interjecting—

CHAIR—Senator Cameron!

Senator RYAN—Chair, I ask that when you call senators to order, if only one senator is out of order, you actually name the senator rather than simply implying that more than one senator is out of order. It might be a nice way to commence the day.

CHAIR—There is no point of order. Senator Ryan, you have the call.

Senator RYAN—Minister, prior to the 2010-11 budget the Minister for Finance and Deregulation said part of the government's fiscal strategy required the government to offset all new spending with savings until the budget was back to surplus—I assume 'part' because the rest of it relies on tax increases. Spending increased quite significantly in the 2009-10 budget and it does not appear to all be offset. I do not find a reconciliation of all savings offsets for spending. Can you please explain why there is no single place where we might go to locate this?

Senator Sherry—Firstly, the government set very strict parameters—in fact the strictest spending parameters that I can recall in my time in the parliament, which is almost 20 years—which restrained expenditure to two per cent growth and ensured that all new spending proposals would be offset. Effectively, we have given the adjustment in the budget revenue parameters and ensured, through that tough fiscal discipline, that the budget will move into surplus in three years time, three years earlier. That is our broad, very disciplined approach. The second issue you raise is a matter of how that is exhibited in the budget papers. In the broad, it is clearly exhibited through the restraints on expenditure and, secondly, through the delivery of a budget surplus in three years time and three years early. Mr Tune may be able to draw your attention to a specific detailed outline in the budget papers to respond to your question. He may be able to add to my answer.

Mr Tune—I draw your attention to page 3-7 in Budget Paper No. 1 where there is a reconciliation table which shows the effect of policy decisions since MYEFO, both spends and saves, and then makes an adjustment for what is in the contingency reserve from MYEFO. If you go across to the bottom right-hand corner of that table to the total, you will see that there is a positive, that is, saves exceeds spends by \$544 million over the period of the forward estimates. That is the reconciliation that is there. If you go to the page opposite—page 3-6—that shows the real growth in payments over the period of the forward estimates. You can see there that each year is below the two per cent real growth that the government committed to achieve over the forward estimates.

Senator RYAN—Thank you. I suppose time will tell whether the out years are actually reflected in future budgets when they move from projections through estimates to actual outcomes. Should I read from table 3 on page 3-7 that the total offset savings over four years is \$544 million?

Mr Tune—That is correct—over the five years.

Senator RYAN—Over the five years.

Mr Tune—If you have got the total saves, you can see on the second line \$28.15 billion of saves over the period and spends of \$30.46 billion, but, as I said, you then need to make an adjustment for spending measures that were already in the contingency reserve, so you net those off in doing the calculation to get that net effect of \$544 million.

Senator RYAN—So the net effect is just under \$110 million a year. It varies over the years.

Mr Tune—You can see the numbers year by year there.

Senator Sherry—On average, that would be right.

Senator RYAN—If I could turn to the specific question of the private health insurance rebate, it remains government policy to means test that rebate despite it being an election commitment not to do so, does it not, Senator Sherry?

Senator Sherry—Yes, it remains government policy to means test the rebate. That obviously is reflected in the estimates and projection figures.

Mr Tune—Figures in the budget, given the difficulty of the nonpassage of that legislation through the parliament—

Senator RYAN—Some might refer to it as difficulty, not all of us.

Mr Tune—The nonpassage, I will put it in those terms. We are now assuming in the budget papers that the start date will be 1 July 2011 for that. So there is an impact on that in terms of increased expenses for 2010-11 as a result of that.

Senator RYAN—So the assumption is that the means testing, if passed, would begin on 1 July. I am happy to be corrected in putting my next question, given past practice. Changes to the private health insurance rebate have been rejected twice by the Senate, yet they are included in the budget as a saving. Why are they included as a budget saving from 2011-12 onwards when the legislation has been rejected twice and there is not necessarily a sign that it is going to be passed?

Mr Tune—The government has made it clear that its policy is to introduce the means test, so on that basis it is legitimate from our point of view to include that in the budget as a government policy measure. It is now recognised that the passage will not be 1 July 2010. It needs to operate on a financial year basis, so the next logical point at which that could take effect is 1 July 2011. So, in our view, that is quite appropriate budget treatment.

Senator Sherry—And that is in accordance with past practice—totally consistent with it. You will notice that there is a range of both revenue and expenditure measures in the budget overall that are yet to be passed by parliament.

Mr Tune—In fact, most of the new measures, apart from the budget, have not yet been passed by parliament.

Senator RYAN—I appreciate that.

Senator Sherry—That has always be the case.

Senator RYAN—I suppose there is a difference politically or in reality between measures yet to be passed and measures that have been rejected. I appreciate your advice that, from the point of view of the Department of Finance and Deregulation, it is appropriate to include it because it remains government policy. When does the government expect its Carbon Pollution Reduction Scheme to take effect?

Mr Tune—The government has said that it will not take effect until at least outside the forward estimates period and on that basis there is a deferral of the CPRS in the budget papers and the reduction in the expenses as a result of that is listed there as well. The government has made clear the various reasons why that will not happen.

Senator RYAN—Please confirm the date as I may have had them mixed up.

Mr Tune—There is no firm date in the budget papers other than that it is deferred beyond the forward estimates period.

Senator RYAN—That means no earlier than July 2014.

Mr Tune—I think the government has said no earlier than January 2013 once the further international negotiations take place.

Senator RYAN—So it is outside the estimates period but it is inside the projections period?

Mr Tune—You would expect there would be a delay between a government announcement about when it might start from 2014 onwards, so on that basis it is appropriate to take it out of the budget.

Senator RYAN—Can you take me through that again. It is outside the estimates period but it is inside the projections period—

Mr Tune—No. The government is saying that it will be no earlier than the end of 2012 and therefore you expect a delay from the point at which any announcement is made about reintroduction of the CPRS and the actual start date. On that basis it has been taken out of the forward estimates.

Senator Sherry—In essence, yes, within the forward estimates period over the four years of the budget estimates and projections, but the cost effect, the expenditure effect, is not included within that four-year period because of the implementation time frame.

Senator RYAN—If we explore this further, when it comes to the implementation time frame, I appreciate there may be a difference in time between announcement, passage of legislation and its taking effect. Are you saying that no CPRS will take effect before 1 July 2014—that is, outside the estimates projection period?

Mr Tune—At the moment it is not clear when that might happen, but there are certain dates. Because of the uncertainty—and the box on page 3-14 of Budget Paper No. 1 explains what is going on—about the start date it is appropriate to take it out of the forward estimates.

Senator RYAN—Senator Sherry, is the government committing to there being no operating CPRS before 1 July 2014?

Senator Sherry—I think we have to draw a distinction between operation and impact.

Senator RYAN—Impact on the budget. As I understood it, the old legislation had an impact in year 1 of the budget

Senator Sherry—We have to draw a distinction between passage of any legislation, implementation and impact on the budget. As is explained on page 3-14, in relation to a deferral of the CPRS, there is no impact on the forward estimates and projected years.

Senator RYAN—It remains government policy to have a CPRS, doesn't it?

Senator Sherry—As stated, from that date but no earlier.

Senator RYAN—This is the point I would like to get to. We have a government policy about a private health insurance rebate that has been twice rejected by the Senate but has been included as a savings measure to make the budget look better. It has a positive impact on the figures in the budget papers. We have another government policy that will come into effect no earlier than 2011, I think it was—the same date as the private health insurance rebate changes are expected to come into effect, no earlier than that—but there is no commitment outside that period.

Mr Tune—Can I answer that one, Senator? The health insurance rebate has a start date. The CPRS has an uncertain start date—the government is yet to determine what the start date is, other than it will be no earlier than 2012.

Senator Sherry—And there are a very clear start date and budget impact for the private health insurance measure. I understand your dilemma.

Senator RYAN—I have no dilemma on the private health insurance measure.

Senator Sherry—I had not finished my answer. I understand the opposition's dilemma, from a budget point of view, in opposing—I accept but do not agree with your policy position. I understand your dilemma as an opposition about the fiscal position because you have to find the revenue in order to maintain and bring the budget into surplus in three years time. I understand your dilemma, but we do not have that dilemma. We are clear on our policy: it is included in the forward estimates and projections as a revenue measure, and it will remain there.

Senator RYAN—It is government policy to have a CPRS at some point after 2012. Is that correct, Senator Sherry?

Senator Sherry—Correct.

Senator RYAN—The CPRS that you tried to legislate last time had a budget impact from year 1. That is correct, isn't it?

Senator Sherry—Correct.

Senator RYAN—It was not a positive impact on the budget in year 1, was it?

Senator Sherry—I would have to have a look at the figures.

Senator RYAN—My recollection was that it was a negative impact on the budget.

Mr Tune—It bounced around year by year, depending on the mix between expenses and revenue from the permit sales.

Senator Sherry—But, Senator, the fundamental difference is one of time frames.

Senator RYAN—The fundamental difference seems to be that one policy that involves a potential cost to the budget is not included but another policy which has also been rejected by the Senate—and there does not appear to be a sign of that changing, at least publicly—but which makes your budget look better has been included. And given that \$1 billion in year 3, it is all pretty important.

Senator Sherry—Aside from the fact that we will obviously be dealing with a new parliament from next year—whatever the outcome, we will be dealing with a new parliament—in relation to the operative date for the private health insurance means test, the treatment that has been outlined in the budget forward estimates and projections is totally consistent—

Senator RYAN—With making the budget look better.

Senator Sherry—with past practice. It is government policy. We are very clear about that. You are very clear about your position as an opposition. I do not agree with it but I accept that if you maintain your position you will effectively push the budget into deficit.

Senator RYAN—Nice try, Senator Sherry.

Senator Sherry—That is your dilemma and I know why you have that dilemma.

Senator RYAN—It is no dilemma.

CHAIR—Senator Ryan, you put the question to the minister and the minister was trying to respond. It is unhelpful for Hansard and me chairing these proceedings if people talk over the top of each other.

Senator Sherry—We have already outlined the fundamental difference in start date, understood detail on both measures and they are incorporated in accordance with past practice in the forward estimates and projections of expenditure revenue.

Mr Martine—If I could add another important distinction between these two measures. As noted in the government's announcement and in the budget papers about the CPRS deferral, there is a statement that says that it will not be introduced prior to 2012 and it will only introduce the scheme when there is sufficient international action. So it is contingent on something happening and that is a distinction between this—

Senator RYAN—I recall that argument being run by some others.

Mr Martine—This is a clear distinction between this particular measure and the private health insurance rebate that you mentioned. The latter is a clear government policy that it will introduce it. This is contingent on something happening. On page 3-14 of Budget Paper No. 1 there is a reference at the bottom of box No. 2 that talks about this being similar treatment to other unquantified contingent liabilities. There is also a reference in statement No. 8, I think, of the statement of risks.

Senator RYAN—Thank you. Would I be correct then in assuming that if the government had announced the CPRS shall commence from 1 July 2013 it would then have to be included in the budget papers?

Mr Tune—Correct.

Senator RYAN—The statement in the budget paper says:

The deferral of the CPRS package improves the underlying cash balance by \$415 million over five years from 2009-10, with additional net departmental saves taking this amount to \$652 million.

That would not apply if the press release from the Prime Minister had said, 'We are just delaying the CPRS by two years'?

Mr Tune—Some of it would have applied, but you would be pushing out some of it out.

Senator RYAN—Some of it would have applied, you are quite right. But in effect this whole saving hangs on the government not being specific about the date on which it would like the CPRS to start. If it had a date it would be in the budget papers.

Mr Tune—If there was a definite date, yes, and if it was definitely set down, it would have been included in the budget papers, as long as it was inside the forward estimates period.

Senator RYAN—It is inside the forward estimates period, we just do not have a date. That is the only difference. It is after 2012.

Mr Tune—It is an uncertain date.

Senator RYAN—It is an uncertain date.

Mr Tune—There is nothing for us as budget estimators to hang our—

Senator RYAN—Let me apologise, Mr Tune, I am not having a go at you compiling the budget papers at all. The point I am trying to raise is that if there was a date on which the government desired to have the CPRS start then there would be a negative impact on the budget papers. We have established that.

Mr Tune—The impact would be—

Senator RYAN—The government then, with an interest in having this miniscule projected surplus in three years, clearly has an interest in not having a date specified otherwise part of its surplus would start to melt away.

CHAIR—Senator Cameron has a point of order.

Senator CAMERON—This question is about hypothetical issues being put to Mr Tune, asking for opinion on projected government policy that is not even there. This line of questioning is not proper.

CHAIR—Senator Ryan, I give you the same advice I gave Senator Cameron yesterday when you raised issues about hypotheticals. You can put your questions bearing in mind the terminology that you use. There is no point of order. Senator Ryan, you have the call.

Senator RYAN—I think Senator Sherry wanted to answer.

Senator Sherry—You are not correct in your claim about the budget impact of the deferral of the CPRS. The moneys are being spent elsewhere. They have been reallocated to another program which we can provide details of.

Mr Tune—Yes, the \$652 million, which is an underlying cash number that you referred to, has been reinvested in clean and renewable energy and energy efficiency measures through the new Renewable Energy Future Fund which is talked about in Budget Paper No. 2 as a measure.

Senator RYAN—I am aware of that.

Senator Sherry—So the deferral of the CPRS effectively—because of that reallocation—has not improved the budget bottom line.

Senator RYAN—I am not allowed to ask questions about hypotheticals, Senator Sherry, but you have spent the money there. I do not have a counterfactual other than what you have put here, which is that you have reallocated the money. If the CPRS had been passed, we do not know what you would have done now. The point I am trying to make here is that it strikes me that if the treatment of the private health insurance rebate—twice rejected by the Senate—is purely because there is a specific start date, but there is not a specific start date for the CPRS but we know it is within the estimates and projections period, then there is a legitimate question as to why they are treated differently. I understand that now. The government has not been specific about a start date for its CPRS. It will not say at what point it would like it to start.

Senator Sherry—I think we have well outlined the rationale for both measures, for their treatment in the budget forward estimates. It is totally consistent with past practice, not just under this government but under your government. I do not agree with your policy position but I understand your fiscal dilemma as an opposition—that is, the revenue that you would have to find, should you choose to do so, to avoid pushing the budget into deficit.

Senator RYAN—The budget is already in deficit is it not, Senator Sherry?

Senator Sherry—To push the deficit out would be more precise.

Senator RYAN—I just want to clarify that: it is already in deficit. It is in deficit today.

Senator Sherry—It is in deficit.

Senator RYAN—It is projected to come into surplus, is it not?

CHAIR—Can I just remind you that you put a question and you allow the witness to finish answering the question, otherwise we are going to have a cross-purposes dialogue. Minister, have you finished your answer?

Senator Sherry—Yes. We have crossed over from questioning to debate.

CHAIR—It is not appropriate in estimates.

Senator Sherry—We have both made our respective points.

Senator RYAN—I move now to the contingency reserve. The budget shows \$16.9 billion transferred into the contingency reserve over the forward estimates. Am I correct?

Mr Tune—I am just checking that for you.

Mr Martine—Page 6-53, the table does not add it up but I am assuming that that is the line you are referring to.

Mr Tune—It looks like about that number.

Senator RYAN—Can you outline for me what sorts of activities or undertakings is the contingency fund used for?

Mr Tune—In an appendix on the following page it refers to the concept of the contingency reserve and what is in there. There are various things. There is a tendency for estimates of expenses for policy to be revised upwards in the forward years—it is called the ‘conservative

bias allowance' and has been in place for many years. We put in a rule-of-thumb number basically to say that as time goes by you would expect the numbers to creep up a bit. The reverse occurs in the current year—in this case 2009-10—when we expect a bit of an underspend. That is all based on historic practice. It has been in place for quite a number of years. Then there are things that are commercial-in-confidence—national security-type items. There can be occasions when there have been decisions that have been made too late in the budget process or in MYEFO processes so that we cannot do all the number crunching to measure it and so forth. As you would appreciate, towards the end of a budget process things get rather busy, so they are put in the contingency reserve and are brought out again later on when they are announced.

There are things that may not be announced yet which, as I say, might have commercial-in-confidence implications. Any economic parameter variations that may occur late in the budget process also are put into the contingency reserve. It mentions a couple of other specific things there: ODA—if anyone has got a commitment on ODA and there are future increases in ODA that are put into the contingency reserve until they are allocated to the specific aid project. Also mentioned there is the National Broadband Network.

Senator Sherry—I always used to ask questions about the contingency reserve when I was sitting where you are. I did for almost 12 years in opposition. I do not recall from the answer that Mr Tune has given that there is any change in the approach. If there has been Mr Tune could perhaps indicate that, but I certainly do not recall from the description he has given that there has been any change to the approach in terms of the contingency reserve's purpose.

Mr Tune—I do not think there is anything major there, no. It is pretty much consistent approach.

Senator RYAN—I follow in fine footsteps then, Senator Sherry. There does appear to be quite a substantial growth in the contingency fund over the estimates and projections period from an estimate of \$1.2 billion this year to roughly \$7.9 billion. Could you explain that growth?

Mr Tune—I cannot go through it in detail because, by its very definition, it is the contingency reserve and we do not disclose what is in it, but in general terms a fair amount of it will be accounted for by that conservative bias allowance. If you look at the numbers, that slightly goes up year by year, so that explains some of the growth going through the forward years. The two big ones I suppose are the ODA one, which I mentioned because there is a projected in ODA expenditure to meet the government's commitments around that, and also the broadband.

Senator Sherry—Just to add to that answer: that projection of growth of the contingency reserve, the pattern, is consistent again with past practice under this government and under your government.

Senator RYAN—The out years would always have a substantially higher number.

Senator Sherry—Yes, because it was always an issue that intrigued me when I was sitting where you were.

Mr Martine—Senator, just to help you out there, if you picked up the budget papers going back probably eight years and added all those numbers up, 15.9, which I think was the figure you mentioned, is not an historically unusual number. In fact, working backwards in time it is 26, 26, 23, 24, 17.8, 18, 13. As Mr Tune indicated a large part of that is reflected in dot point No. 1, the conservative bias allowance, which is cumulative and builds up as disclosed with various percentages. That is simply calculated as a percentage of total expenses reported in the budget papers.

Senator RYAN—Thank you for the corporate knowledge too. That is quite helpful, because it does leap out at one when one looks at budget papers in my second year here. With the ODA increase, in your appendix on the contingency reserve you referred me to, is it all kept in the contingency reserve until it is allocated to specific programs?

Mr Martine—If you look at the bottom of page 6-54 in the second last paragraph, it says that ODA is included in the contingency reserve. But in terms of budget statement No. 6 and the table just preceding that page, the ODA estimates are actually allocated against the particular function which is general public services. So the ODA elements sitting in the contingency reserve are actually not part of the numbers that we have just been talking about, the 15.9.

Mr Tune—That was an oversight on my part, I am sorry about that.

Senator RYAN—Sure. So those numbers from 1.2 to 7.8 do not include ODA?

Mr Martine—That is correct.

Senator RYAN—If the contingency reserve is not utilised in coming years—and you may know this because of what has happened in past years, because the out years always look larger than the closer years—is the money effectively just retained and adds to the bottom line of the budget?

Mr Tune—Yes, we adjust this every time. As we move forward in time we will continually adjust that conservative bias allowance. We do it in the budget and we also do it—

Mr Martine—We do it in MYEFO as well.

Mr Tune—So it is a continuous process.

Mr Martine—It progressively gets wound out so that, when you approach the following budget year, there is no conservative bias allowance in the budget.

Senator RYAN—I appreciate that. That is very helpful, thank you. In the budget paper there is nearly \$1.3 billion listed as ‘decisions taken but not yet announced’. I appreciate what that phrase means so I am not going to ask maybe the obvious question. I understand some of these funds would be used for classified projects for national security and defence. That is partly what some of those are funds are used for; is that correct?

Mr Tune—Yes, that would be correct.

Senator RYAN—Is that all of the roughly \$1.3 billion of projects that are ‘decisions taken but not yet announced’?

Mr Tune—There could also be commercial in confidence issues where we have decided it is best not to disclose because it may give some commercial advantage to someone who is

going to tender for something. We want to hold it close to ourselves so we do not signal too early in the piece what sort of money we may have allocated for that particular issue.

Senator RYAN—Can you indicate what proportion of those funds are likely to be publicised as to what the announcement is in the first half of the financial year?

Mr Tune—No, I cannot, I am sorry. That would be an issue for the government to decide.

Senator RYAN—Senator Sherry?

Senator Sherry—No, I cannot, and that is in accordance with past practice not just under this government but under yours.

Senator RYAN—If I could turn to the department's role in various parts of the stimulus program. The budget group, as I understand it, contributes to the outcome 'sustainable government finances'. I would be interested in hearing from you your role in the development of the home insulation program before it was announced in February last year?

Mr Tune—I was not in the department of finance at that point, nor was Mr Martine, and the relevant players are no longer in finance, unfortunately. But I do know that the department of finance was involved in costing the various measures that were announced in the stimulus package, so therefore we did have a role through that period.

Senator RYAN—Can you give me a timeline?

Mr Martine—Most of that work on the costing would have taken place in that January 2009 period in the lead-up to the announcements—I cannot remember the exact date—in February.

Mr Tune—Early February I think it was, wasn't it, the stimulus package?

Senator RYAN—Yes. So was the department's role limited to costings of the program?

Mr Tune—No, we provide policy advice to our ministers and to various cabinet committees or to cabinet itself.

Senator RYAN—With respect to Building the Education Revolution that was also announced in February 2009—

Mr Tune—Around the same time period, yes. Everything was happening together. I can remember it well.

Senator RYAN—Was the department's role the same—costings?

Mr Tune—Yes and advice.

Senator RYAN—Was the timeline the same?

Mr Tune—Yes.

Senator RYAN—So nothing before January 2009?

Mr Tune—On the BER?

Senator RYAN—On the BER.

Mr Tune—I don't think so. If I can take that one on notice but I think I am right in saying that.

Senator RYAN—I appreciate that. There has been some discussion, including by the Auditor-General, about the \$1.7 billion blow-out in the BER program. At budget estimates last year the department said that when costing the policy, finance calculated the program cost estimates on the basis that 100 per cent of schools would take up the offer but that schools would only be likely to spend 90 per cent of the money allocated to them. I know there has been some difference about 90 per cent of schools, 100 per cent of the money or was it 100 per cent of the schools spending 90 per cent of their allocation. Is what I initially said a fair characterisation of the department's?

Mr Tune—There is a quote in the audit report that quotes the evidence that Dr Grimes gave to this committee basically one year ago and I think what you are saying is broadly in line with that. I guess from our point of view it was costed on the basis of what we are calling—and in the ANAO report also calls it this—a 90 per cent utilisation rate rather than 100 per cent.

Senator RYAN—So the 90 per cent utilisation rate is 90 per cent of schools taking up 100 per cent of it?

Mr Tune—No.

Senator RYAN—Or is it the other way around?

Mr Tune—No, it is not that scientific. Basically what we said, and you will appreciate the time frames we were doing this within, is that it is likely there will be a range of factors that may lead to less than 100 per cent coverage. As you know, each school by size was given a maximum amount of grant and so forth. So the calculations were done, multiply A by B for all the different categories, and you could come up with a number that was 100 per cent. Then we said that we think on the basis of a couple of things—one around possible take-up, number of schools who might take it up—it is possible, not certain but possible, that a number of schools may not take it up. It is also possible that not all schools will take the maximum amount of grant that is on offer for their particular size of school. Throwing that all into the mix in I will admit a non-scientific way because we did not have the data at that point to be able to demonstrate this—we said 90 per cent seems like a reasonable assumption in which to do the costing.

Senator RYAN—How long did you have to do this costing?

Mr Tune—It was bouncing around—it would have been a week maybe.

Senator RYAN—A week to do the costing?

Mr Tune—Yes.

Senator RYAN—So the constrained time period for you to do this costing limited the effectiveness of your costing? If you had more time to gather more data, could you have been more accurate?

Mr Tune—There had been another program under the previous government that was somewhat similar but not exactly the same, so you had a little bit of information from that. You had to draw together enrolment data, which was done by DEEWR early in the piece, and you had to come to a view about what the policy parameters were. Until all those things had been done it is hard to cost it. You go through an iterative process around costing these things.

Senator RYAN—But you said you had a week and you indicated there were limits in data. If you had had more time, would your cost estimates have been more accurate?

Mr Tune—If your question is: would we have done anything different?

Senator RYAN—Yes.

Mr Tune—I think my answer is no. I still think at the time—and remember what we are doing is estimates; we are trying to estimate the effect; reality can be somewhat different from estimate—we would have done the same thing. If I had been given 12 months, yes—

Senator RYAN—If you had been given another month. If you had a week and if you multiplied that by four and gave you a month—

Mr Tune—I do not know. I still think that was a reasonable assumption to make in the circumstances. That is it. I think we will stand by that as a department.

Senator RYAN—You advised the minister that this 90 per cent utilisation rate should be expected?

Mr Tune—It was an estimate.

Senator RYAN—So your estimate was 90 per cent utilisation?

Mr Tune—Yes.

Senator RYAN—The policy was costed and the various appropriation bills were presented to parliament on the basis of that 90 per cent.

Mr Tune—Correct, and circumstances can change, as they did in this situation, and further money was required.

Senator RYAN—If I can read out a section from the audit report into this, paragraph 37, and I will read out the whole sentence:

However, in the case of BER P21, as indicated above, SPBC ministers—
—who I believe are ministers Swan, Gillard, Tanner and the Prime Minister.

Mr Tune—That is correct.

Senator RYAN—It goes on:

—have provided advice indicating that they were aware from the time of their original decision of the likelihood that an estimates variation may be required to provide more funding.

Mr Tune—Yes.

Senator RYAN—So your advice was what—that this would not be enough?

Mr Tune—No, our advice was that, based on what we had, we thought that was a reasonable estimating assumption. As I said earlier, it is an estimate only. Things can change and often they do. So you have to find a point at which you want to cost something, realising at the time that you could be over, you could be under and you adjust as you go as more data comes into play.

Senator RYAN—I appreciate that neither you nor Mr Martine were in your current positions at the time, but it was this committee that actually examined the stimulus that came out of the UEFO last year, and we did it in a particularly compressed timeline. At no point can

I recall this level of doubt, which is \$1.7 billion and a billion here and a billion there and pretty soon you are talking about real money. At no point was it mentioned to the committee undertaking an inquiry into the stimulus that there was this reasonable level of doubt about the estimates.

Mr Tune—I think you are overstating this issue of reasonable level of doubt. It is a point in time point estimate that is made on the basis of certain assumptions and, as I said earlier, I think they were reasonable assumptions at the time, recognising that things may change.

Senator RYAN—Things changed pretty quickly, didn't they, Mr Tune?

Mr Tune—Well, not that quickly.

Senator Sherry—Finance make their best efforts, best estimates. You have used the term 'reasonable level of doubt'; the departmental officials have not used that. I can certainly recall programs under this government and under the previous government where estimates are made and Finance apply their best efforts, but where the outcome in terms of take-up, for example, is either under or over. It can impact both ways.

I recall one program under this government, the first home owners special savings account, where the take-up in fact has been lower than was estimated. Therefore, the cost to budget has been lower. From my interaction with Finance and my time at estimates, Finance always make their best estimates. Are they 100 per cent to the nearest cent always right? No, they are not, but they make their best estimates based on the variables and that is incorporated in the government's expenditure and, in the case of Treasury, revenue.

Senator RYAN—The point I get to here, Minister, is that the Auditor-General says the ministers were aware from the time of their original decision of the likelihood of needing further appropriations. We sat here, I think, in February 2009—it could have been late January, but I am reasonably certain it was February—and conducted short and sharp hearings with the Department of Finance and Deregulation into the stimulus package. Yet while the ministers were aware further appropriations would be needed that was not highlighted to the parliament, from whom this appropriation was being sought. I understand that additional spending on the BER was given approval on the 17 March 2009 by the Minister for Finance and Deregulation.

Mr Tune—No, that is not correct. Let me explain. Two points. Firstly, it was not evident in February that there was anything wrong with our estimating assumption. So, nothing had come to light at that point; the program had not been put in place—

Senator RYAN—But the Auditor-General says the ministers were aware.

Mr Tune—No, from where we were standing there was nothing indicating that at that point in time. Secondly, the point about March is not around whether there was approval given for extra spending—and this is going to get extremely technical. What was given by the minister for finance was a regulation 10 approval under the FMA Act, and that is a theoretical amount. The reason that regulation 10 approval is required by the Minister for Finance and Deregulation is that spending is to proceed across a number of years, and that is covered under that act. That is a theoretical approval—up to the absolute maximum you could do. It does not actually approve spending in a sense that there is a cabinet decision or a government

decision to spend that amount. It is just a technical thing that is done under this regulation 10—to give you some coverage down the track.

Senator RYAN—That gives legal authority to further decisions to give you appropriation authority—is that right?

Mr Tune—In a sense, that is right.

Mr Martine—The appropriation authority obviously comes through the parliament.

Senator RYAN—Yes. I did have some questions on regulation 10. I enjoy the technical stuff, Mr Tune. It says more about me than you, I fear.

Mr Tune—I will go and do something else for a while, if you want.

Senator RYAN—When the minister made that regulation 10 approval on 17 March, that empowered the minister or the cabinet to undertake the extra spending—is that right?

Mr Tune—Yes, it enables them to enter into contracts.

Senator RYAN—It enables them to undertake that extra spending as long as it is within another broad appropriation but without extra parliamentary approval? I am happy to be corrected on that. I appreciate this is technical.

Mr Tune—We may need an expert at this point. We will get some of the accounting people to come forward.

Senator RYAN—Okay. Mr Tune, you mentioned earlier that it was not clear in February that the estimates needed to be altered—and I am not trying to put words in your mouth—or amended, or that time had moved on since the snapshot you took that formed your estimate. How were the ministers aware from the time of their original decision of the likelihood that an estimates variation may be required to provide more funding? Was any advice given from the Department of Finance and Deregulation to the finance minister that ‘an estimate variation may be required’; in short, there would need to be more money?

Mr Tune—I do not think there was any explicit advice given to that effect. It follows from what I have been saying that we were talking about estimates at a point in time and because they are estimates, a reasonable person, including an official, would have thought, ‘Well, there is a possibility that this may change.’ I think that is what the ministers have said.

Senator Sherry—And that is true of anything. Any expenditure estimate where an estimate occurs may not be precisely accurate nearest dollar and cent.

Senator RYAN—I appreciate that, but \$1.7 billion is not a dollar and a cent; it is quite a few dollars and cents.

Senator Sherry—I accept that, but the finance department gave their best estimate at that point in time and that was provided to the minister.

Senator RYAN—I am not disputing that the department of finance gave its best estimate at the time. I am trying to explore the meaning of what the Auditor-General has couched in auditors’ language that from the time of the original decision the ministers were aware that there was a likelihood that an estimates variation may be required to provide more funding. There was no formal advice from your department to that effect. Is that what you said earlier?

Mr Tune—No, I do not think so. I could check the record and take it on notice, if you like.

Senator RYAN—I would appreciate that if there was advice you could tell me when an estimates variation was necessary.

Mr Tune—My answer is that, regardless of whether there was formal advice or not from the department of finance, a reasonable person would have thought yes, there is a possibility that things may change and, as we found out subsequently, they did.

Senator RYAN—I did use the term ‘reasonable’ before and I was corrected by the minister, although I put it with doubt. When we see an estimate in the budget that might be similar to that, what should lead senators to considering there might be roughly a 10 per cent error? I appreciate you had compressed time lines—you have outlined that and we can get further details about that on notice. This was a \$14 billion program that became a \$16 billion program within six weeks.

Mr Tune—No, I do not think within six weeks is correct. Certainly we were not in a position where we felt confident enough to advise the government about the need for change and we thought we had sufficient data through contracts that had been signed in the progress of implementation. It was probably not until August that we felt confident that that was the case. Others may have thought it occurred earlier than that, but that was the view that we formed at the time. We were wanting to see some firmer data because, on the basis at which we had costed it, we knew there was uncertainty.

Senator RYAN—There was an additional request to the Minister for Finance and Deregulation for a regulation 10 order, direction or whatever the official terminology for that is on 13 March 2009?

Mr Tune—That is correct, I think.

Senator RYAN—That was a Friday.

Mr Tune—I do not have the dates here, but I think you are right, unless it is somewhere in the audit report itself.

Mr Martine—I will check.

Senator RYAN—I did a crash course on FMA Regulation 10 this morning.

Mr Martine—We can try and dig that out for you. I am looking at my notes and it sounds, from what I have been advised, although I was not there at the time, roughly in that time frame.

Senator RYAN—The time line to me is quite important, so I am happy to wait until that is confirmed and come back to that issue. I know the chair is keen to allow other senators to ask questions.

Senator CAMERON—Mr Martine, what was the impact on the underlying cash balance of withdrawing the CPRS in each of the years 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14?

Mr Martine—I take it from your question that you are talking about cash savings?

Senator CAMERON—The underlying cash balance.

Mr Martine—As indicated in Budget Paper No. 2, page 9, where the CPRS deferral is outlined and the savings generated from that deferral indicated, there is a reference to the total cash savings across the budget and forward years of \$652.5 million over the five years from 2009-10.

Senator CAMERON—Could you give me that reference again.

Mr Martine—Page 9 of Budget Paper No. 2—the measure ‘Carbon Pollution Reduction Scheme—deferral’. The fiscal balance numbers are provided in the table. The second last and last paragraphs on that page talk about the total cash savings of \$652.5 million over the five years from 2009-10.

Senator CAMERON—Do you have those figures year on year?

Mr Martine—Bear with me again. On page 9 you will see the fiscal balance year-on-year numbers in the table. In terms of cash and the breakdown of the \$652.5 million over the five years, I will just read these out. In 2009-10 the effect of the deferral is a saving of \$107 million. In 2010-11 the effect of the deferral is a cost of \$374.8 million. In 2011-12 the effect of the deferral is a saving of \$1.755 billion. In 2012-13 the effect of the deferral is a cost of \$2.641 billion. In 2013-14 the effect of the deferral is a saving of \$1.806 billion. If the maths in my table is correct then hopefully those five numbers add up to \$652 million. As Mr Tune indicated earlier, and as is also outlined on page 9, the government indicates that those cash savings of \$652 million will be spent on the clean energy fund.

are**Senator Sherry**—Renewable.

Mr Martine—Sorry—the Renewable Energy Future Fund.

Senator CAMERON—If the CPRS were included in the budget, would the government still be in surplus in 2012-13? There has been some commentary that the government achieved its budget targets because of the savings.

Mr Tune—The answer to that is yes, as we went through with Senator Ryan earlier, because the savings in underlying cash terms were re-expensed to the new fund. The net effect on the surplus is zero. Therefore the numbers in the budget papers indicate there is a surplus in 2012-13. So the answer to your question is yes.

Mr Martine—I guess the other thing is the effect of the deferral in 2012-13. As you would have noticed in the numbers I read out, some are positive and some are costs, so there are some savings in some years and some costs in others. The effect of the deferral in the year I think you were referring to, 2012-13, is actually a cost to the budget bottom line. Therefore the answer to your question is yes, for that reason as well as the reason outlined by Mr Tune.

Senator CAMERON—So in 2013-14, if the CPRS were included in the budget, the government would still be in surplus.

Mr Martine—The projected underlying cash balance surplus for 2013-14 outlined in the budget papers was \$5.4 billion. So the portion of the savings from the CPRS deferral that would be forming part of that number would be the \$1.806 billion that I read out to you earlier. Technically, if that were the only change in the whole budget documentations—and it is always hard to talk about counterfactuals—therefore, by definition, the \$5.4 billion would be \$1.8 billion less.

Senator CAMERON—And was still a surplus?

Mr Tune—Yes.

Senator CAMERON—Could you tell me what your overall staff numbers are in the department?

Mr Tune—I asked this not too long ago, I am trying to think what they gave me. It is about 1,600 FTEs.

Senator CAMERON—1,600?

Mr Tune—Yes.

Senator CAMERON—What is your annual turnover in resignations and retirements?

Mr Tune—It was 10.9 per cent in the last financial year.

Senator CAMERON—So if you were faced with a two-year recruitment freeze what effects would that have on the operation of the department?

Mr Tune—If it was a two-year freeze you might end up with a turnover of something like 20 per cent if that 10.9 per cent turnover remained. It is hard to know what might happen there but let's assume that happened. Yes, that would have a major impact on our operations if we were not able to backfill those positions.

Senator CAMERON—Can you describe some of the major impacts that could be faced?

Mr Tune—There would be a reduced role in advising the government on its budget. There would be a reduced level of service, I suspect, to MPs through the ministerial and parliamentary services area of our department, which employs quite a large number of staff. Our capacity to manage construction projects for the government would probably be affected. The level of service we provide through Comcar may also be affected. We have a large number of part-time drivers who could well be affected by such a freeze as well. They would probably be the main things.

Senator CAMERON—So that would be quite a significant impact on your capacity to fulfil your obligations under the act?

Mr Tune—It would be, yes. The other issue would be our incapacity to renew our staff, in the sense that we recruit quite a large number of graduates in the organisation each year—in the order of 50 or 60. They are quite important to us because they are bring new ideas and new thinking into the department and enable us to keep rejuvenating. So if you had a freeze I would have to cancel graduate recruitment, basically. Whilst the effect is not necessarily immediate—that is, in year one or year two—you do pay a price down the track because you have lost a cadre of people for a couple of years who were going to fill your middle-level positions in future years and hopefully the senior ones in later years.

Senator CAMERON—So staff freezes do not simply have a short-term cost-cutting effect; they have got long-term strategic effects—

Mr Tune—They can do, unless you have got a means of recovering after the freeze ends so that there was a fairly rapid boost again to get you back to where you want. I think you would

still probably have a bit of a gap that you would find it very hard to recover from in the short term.

Senator CAMERON—So that would have impacts on skill development, on the recruitment of young graduates—

Mr Tune—Yes. I think it has an impact on the capability of that department.

Senator CAMERON—When you say ‘if you could recover pretty quickly’ that would mean a significant influx of new employees, would it?

Mr Tune—You would have to do that, yes. To recover quickly you would have to go above average after the freeze finished.

Senator CAMERON—So then you would have to offset any financial gain during that two-year period against the rapid increase in employment following the freeze?

Mr Tune—If you wanted to do that, yes. Whether it is a one-for-one relationship is questionable, I guess, but there would be some cost involved; otherwise you just bear the cost of it, you do not do anything and you just say, ‘Well, that’s happened’ and you recover more slowly over time.

Senator CAMERON—So just tell me about where you believe there may be a problem with you complying with your obligations under the act.

Mr Tune—Complying with the obligations of myself and the department under the act is always the No. 1 priority for us so they would be the sorts of things that I would not change. I just have to do those—that is the law and I need to comply. I would probably maintain those areas. It is the other areas that I think may be more at risk. Whether we could comply with the act as well as we otherwise might is an issue but I would try and shore that area up to the maximum extent possible wherever there are any acts of parliament that affected our operations.

Senator CAMERON—You say you will keep your main responsibilities covered, basically. But if you lose a senior economist or accountant who is fundamental to the operation and who has massive amounts of corporate knowledge, and you do not have an opportunity to replace them or have a phase-in period where corporate knowledge is changed over, how would that work? How can you then keep your—

Mr Tune—It is very difficult. I might have to put additional resources in there to try and maintain the overall level of capability if I have lost a couple of experts that have gone off to do something else. You try the best you can in those situations, but yes, it would be very difficult.

Senator CAMERON—So a two-year freeze would mean you could not plan your operational capacities effectively for your skill development?

Mr Tune—It would have an impact on skill development; there are no two ways about it. In terms of planning, if I knew in advance it was going to happen, I would try and plan to the best of my capacity around that taking that as a given, but yes, it would be a difficult process.

Senator CAMERON—You have given implications for the department and for service to parliamentarians. What are the implications for the national good and the public from not being able to provide appropriate services to parliamentarians and in budget development?

Mr Tune—If there were a drop in standards in terms of our capacity to provide advice to government on financial issues and on budget issues in particular—I do not know how people value the department of finance, but let us assume we are adding some value—and if that value were diminished, I think that would be regrettable.

Senator CAMERON—You said 10 per cent. There are 1,600 employees, so we are looking at about 300 to 320 employees over a two-year period.

Mr Tune—That is correct, yes.

Senator CAMERON—That is quite a significant carve-out.

Mr Tune—If the 10 per cent separation rate were maintained under that, yes.

Senator CAMERON—But it could even be more, depending on the demographics of your workforce.

CHAIR—Senator Kroger, on a point of order.

Senator KROGER—Madam Chair, we have given Senator Cameron a lot of latitude in pursuing a hypothetical, and the hypothetical is now becoming even more hypothetical in terms of demographics and so on.

Senator CAMERON—A bit touchy, are you?

Senator KROGER—My point of order is that Senator Cameron himself said he had learnt by being ruled out of order on hypotheticals in the last two days, and he clearly has not.

CHAIR—Thank you for your point of order, Senator Kroger. I remind all members of the committee that there is little point in putting hypotheticals to the witnesses, because they are unable to answer those hypothetical questions. As I have said consistently over the last two days and again this morning, I remind each member of the committee to be mindful of that when they are phrasing their questions.

Senator CAMERON—I have just about finished. To sum up on the CPRS, the deferral of the CPRS was not required by the government to budget for a surplus in 2012-13, Mr Martine?

Mr Martine—That is correct.

Senator CAMERON—Mr Tune, if you were subjected to a cut of 320 employees, it would have a significant impact on the capacity of the Department of Finance and Deregulation to provide the best quality service?

Mr Tune—Yes, it would certainly require a big adjustment in the way we go about our work; there are no two ways about it.

Senator CAMERON—Thank you.

Senator RYAN—Have we been able to confirm the date I put earlier as 13 March?

Mr Tune—Regulation 10—is that the one?

Senator RYAN—Yes.

Mr Tune—Yes, it was signed by Minister Tanner on 17 March 2009.

Senator RYAN—I believe 13 March was a Friday.

Mr Tune—Was it? Okay.

Senator RYAN—I will check my calendar.

Mr Tune—Friday the 13th.

Senator RYAN—Bad for Australian taxpayers! Please take me through this again, Mr Tune. The request for the regulation 10 order by Minister Tanner allows the department to take a decision to spend the extra \$1.7 billion. Is that the effect?

Mr Tune—I might get someone to assist me. I think we need to understand the purpose of regulation 10 and take you through that.

Senator RYAN—While we are doing that I have a couple of other questions that are vaguely related that you might be able to answer at the table. You had about a week, you have said earlier, to cost this?

Mr Tune—Yes, I think I said I would confirm that, but that is approximately right.

Senator RYAN—So approximately, awaiting confirmation. How long does Finance usually have to cost policies of that magnitude?

Mr Tune—It varies so much that I do not think I could give you a time period. With some there is a period of three, four or even longer weeks; at other times it is at very short notice.

Senator RYAN—For programs in the order of \$14 billion. Is there a variation that is partly based on the size of the program?

Mr Tune—No, not really. It depends on the government decision making processes. In this situation, of course, the government was desirous of finalising this package and getting it moving ASAP given the state of the economy at the time, and therefore that impacted on the amount of time that could be devoted to the costing.

Senator RYAN—So it was the urgency of the government's wish to make the announcement that gave you the week to cost it?

Mr Tune—Not the urgency, the speed with which the government wanted—

Senator RYAN—You responded to that request for speed from the minister.

Mr Tune—As we always do, yes.

Senator RYAN—I appreciate that. As you have mentioned, estimates are estimates at a point in time and there is variation to programs later on. Have you considered or examined your own records in the department of finance to determine whether there is a correlation between the speed with which you are required to undertake program estimates and their accuracy?

Mr Tune—I am not aware of such an analysis, Senator.

Senator RYAN—Yourself or Mr Martine—Mr Martine, you were from Treasury, I believe?

Mr Martine—Yes. I have been here seven days.

Senator RYAN—Welcome.

Mr Martine—Senator, can I just add on the issue of costings and timing, et cetera, as you would obviously appreciate some costings are relatively simple; some are quite complex. Sometimes that does not have much to do with the quantum of what you are costing. Sometimes a \$20 million program can be very difficult to cost as opposed to something that might be in the billions, and sometimes you can only work with a limited number of variables. In this particular case, for example, there is a funding set per size of school. So to do this sort of costing you would have that as a factor, you would need to know how many schools, et cetera, and then you would start making judgments about, for example, 90 per cent utilisation. And sometimes, even if you had another month of thinking about these things, you may still not necessarily come up with a different number. You do get to a point that you have only got a limited number of variables, there is no additional data, and you just have to work with that.

Mr Tune—That is probably the case with this one actually. As I explained earlier, once you made the assumption of the 90 per cent, it was a reasonably easy arithmetic exercise to run it through.

Senator RYAN—I appreciate that, but presumably access and greater amounts of data can help you come up with that key assumption.

Mr Tune—If you have more time, you might be able to refine your assumption, that is true.

Senator RYAN—Thank you. I notice that other officer has appeared at the table.

Mr Tune—Yes, Mr Suur, who looks after reg 10 and associated issues in our financial management group.

Senator RYAN—Mr Suur, what I was asking before was the meaning of the regulation 10 approval by the minister on 17 March which allowed—and please correct me if my terminology is wrong here—or freed up a capacity for the department or the government to allocate an extra \$1.7 billion to this program. Am I characterising what a regulation 10 order does correctly?

Mr Suur—What reg 10 allows the minister to do is to give authority to others to commit funds into the future where appropriations have not been made. By and large we have an annual appropriation cycle: money is available in the year, but the nature of various activities undertaken by the Commonwealth requires it to do things in the future. The Commonwealth enters into contracts that run over many years or it assumes contingent liabilities in relation to activities that might materialise in the future. Regulation 10 sets up a process where ministers who are doing this come to the finance minister and announce to him that they want to undertake some kind of activity which may have an impact on future budgets.

Senator RYAN—So it cannot impact the current budget; it can only impact a forward budget. Is a regulation 10 order then something that only impacts subsequent financial years?

Mr Suur—Yes, that is right. Regulation 10 relates to, and I will quote from the regulation itself:

... a spending proposal ... for which an appropriation of money is not authorised by the provisions of an existing law or a proposed law before the Parliament.

So it is about future activity, activity beyond the budget year.

Senator RYAN—So in layman's language it gave authorisation to the minister or the government to commit extra spending in future budget years, subsequent to appropriation bills being passed by parliament?

Mr Suur—Yes, that is correct.

Senator RYAN—Thank you. I may have some other questions relating to regulation 10 but I wanted to explore a couple of questions with respect to this particular approval.

Senator CAMERON—Madam Chair, I have a question on regulation 10.

CHAIR—We shall have a follow-up question from Senator Cameron before you go on to a new one, Senator Ryan, and bearing in mind that we are finishing at 10.30.

Senator CAMERON—Mr Suur, how long has regulation 10 been in existence?

Mr Suur—It was amongst the first lot of regulations put in place after the entry into force of Financial Management and Accountability Act 1998.

Senator CAMERON—Regulation 10 is not simply used by the finance minister. As I understand it, there has been limited delegation to financial management agency chief executives; is that correct?

Mr Suur—Under the regulations, the finance minister can delegate some of his powers under the regulations to agency chief executives and he has done that, as you have characterised, to a limited extent in relation to regulation 10 by giving it to the CEOs.

Senator CAMERON—There is nothing new about the operation of regulation 10; it is a proper, accepted and historic approach to evening out the requirement for finances, as you outlined them, in terms of the definition?

Mr Suur—It has been around for 12½ years now.

Senator CAMERON—So it was used under the Howard government, was it?

Mr Suur—Yes, the legislation was put in place by the previous government.

Senator CAMERON—So it was put in place by the Howard government and used by the Howard government?

Mr Suur—Yes.

Senator CAMERON—Is there any history of how often it has been used by the Howard government?

Mr Suur—It is used on a very regular basis by all agencies. As I said to Senator Ryan, the activities of the government are necessarily such that it enters into arrangements and engages in activity that stretch over many years, certainly beyond the budget year. When those activities entail the commitment of public funds or entering into contracts that commit future funds or that assume contingent liabilities, then regulation 10 comes into play.

Senator CAMERON—Thank you.

Senator RYAN—May I suggest we break now?

CHAIR—Yes. It is 10.28 am. We will adjourn until 10.45 am.

Proceedings suspended from 10.28 am to 10.45 am

CHAIR—We will recommence with Senator Ryan.

Senator RYAN—I want to go back to the additional spending for the BER program. The inquiry of this committee into the stimulus package was on Friday, 6 February. I appreciate that neither of you was in your current role then. The letter from the Minister for Education, Ms Gillard, to the Minister for Finance and Deregulation, Mr Tanner, was on Friday, 13 March—five or six weeks later. Did your department become aware by any means, either your own or other work, between those dates that additional funds would be required for this program?

Mr Tune—No, I do not think we did.

Senator RYAN—So your first knowledge of the requirement for the additional \$1.7 billion was the communication from Minister Gillard in writing to your minister.

Mr Tune—No. We do not make the connection between the request or the reg. 10 approval and the need for additional funds. As I was trying to say earlier, the reg. 10 is almost a theoretical maxim and, as Mr Suur explained, it is about committing funds into the future. That to us was not the signal that more money was required; it was just a reasonably routine thing that had to be gone through to comply with the FMA Act.

Senator RYAN—Explain to me then: a minister requests approval for the authority to commit extra funding in future years. Isn't that, for the purposes of managing the government's finances, treated as a liability—that there is now authority to commit those funds?

Mr Tune—Subject to appropriations being made.

Senator RYAN—Subject to future appropriations.

Mr Tune—Yes, that is the key issue: it is the appropriations that matter.

Senator RYAN—Doesn't it go into any estimates?

Mr Tune—No. It does not go into the bottom line at all.

Senator RYAN—It does not go into the budget?

Mr Tune—No.

Senator RYAN—Did that \$1.7 billion go into the process for the budget that came out in May 2009?

Mr Tune—No, it did not.

Senator RYAN—So how was it treated? Explain to me where it appears, if anywhere, if it does not appear in the accounts.

Mr Tune—It will only appear when the government has actually made the decision to do it—to commit to whatever was there—and then it will get reflected in either MYEFO or a

budget, depending on where we are in the budget cycle. The appropriation is made at that point.

Senator RYAN—So it still requires a decision by parliament to actually spend and appropriate the money.

Mr Tune—Correct.

Senator RYAN—At what point has extra money been appropriated for that program?

Mr Tune—At the point at which the government made the decision to top up the money for the BER, which was in July, I think.

Mr Martine—I think it was around July or August, and then those estimates would have flowed through to last year's mid-year update.

Mr Tune—The government put out its announcement and it offset that extra cost for the BER by reducing things elsewhere.

Senator RYAN—So after that approval there is effectively no financial impact until the government, and then parliament, appropriate extra funds or the government reallocates funds within appropriations.

Mr Tune—That is right, yes.

Senator RYAN—Okay, I appreciate that—and that it is complex. When did the Department of Finance and Deregulation become aware that extra funds would need to be appropriated and/or spent on this program?

Mr Tune—There was some discussions going on around April. At that point in time there had been projects approved, so we were saying, 'Let's hold off for a while. Let's see what is happening in terms of actual projects being approved, contracts being signed, et cetera, and keep it under review through the period.' That sort of process went on between us and DEEWR leading into the decisions being made in July to approve the extra funding. There was a dialogue going on between the two agencies looking for a way to prove it up a bit better in the light of experience as DEEWR implemented the program.

Senator RYAN—By 'prove it up a bit better' do you mean you were asking DEEWR to effectively prove its case that it needed more money.

Mr Tune—Yes—well, demonstrate to the best of their capacity. Everyone is in an uncertain world here, but we were looking for a bit more certainty so we were asking for more information. Can you tell us what is going on? Can we see something around the pattern of the spending?

Mr Martine—Certainly what the department was looking for at that point is actual projects that had been approved. At that point in time the Department of Finance and Deregulation still had the view of 90 per cent utilisation and the advice we were giving to DEEWR at the time was: let's see actual approved projects and a demonstration that in fact that assumption would not actually be valid. At that point in time the view of Finance was still that the costings were the best estimates that one could come up with for the program.

Senator RYAN—There was some discussion, was there not, between your department and DEEWR about this 90 per cent utilisation.

Mr Tune—This was all part of the seeking of further information that was going through that period, yes.

Senator RYAN—Characterising your statements earlier about utilisation, it was neither specific to be based on a 90 per cent spend by 100 per cent of schools nor 90 per cent of schools spending 100 per cent of their allocation.

Mr Tune—That is right.

Senator RYAN—Was DEEWR of that same opinion?

Mr Tune—You would have to ask them. I suspect that, as they were working their way through it they were moving towards the view that it was going to go up. We were still of the view—this is not unusual, I might say, between agencies, particularly Finance and other agencies—around them putting a case to us, us looking at the case and asking for further information and so forth. It is just part of the normal process that goes on. I will not call it argy-bargy but it is the normal process that occurs within government about us trying to get as much information as we can. I guess it is our role to take that sort of view. They were probably more tending towards the view that it was going up at an earlier stage than we were.

Senator RYAN—Dr Grimes, who appeared before this committee previously, said in May last year—I am trying to get to the nub of the assumptions about costing:

Effectively, the 90 per cent assumption was not a 90 per cent take-up, as I explained before. You expect virtually all schools to take it up—do they spend the full amount that is allocated? As an assumption, we use 90 per cent, which seemed like a reasonable assumption to use for a program of this magnitude. In looking at time frames for construction and so forth, we obviously consulted with people who had expertise in construction to work out what might be a reasonable time frame for delivering the projects, including, in some cases, advice from the states.

That led committee members at the time, and others, to the point that your assumption was actually based on a 90 per cent spend. But you are now telling us that that was not your assumption.

Mr Tune—It was a mix of things going into it, that is what I am saying—one of which was take up and one of which was the 90 per cent of maximum spend. In that sense we did not disaggregate the two impacts and say, ‘X per cent to that, Y per cent to that’—we just took at as a lump, and said there was a range of factors here that could be in play, and then applied it.

Senator RYAN—So when Dr Grimes said—

Mr Tune—Dr Grimes is saying in that statement that he expected probably less of it to relate to the maximum than to the actual take up by schools. That may have been his view and that is a reasonable view. I could not tell you whether that is right but I can tell you that it was a mix of things going in there.

Senator RYAN—I would say that that paragraph—particularly the sentence:

As an assumption, we use 90 per cent, which seemed like a reasonable assumption to use for a program of this magnitude.

—would reasonably lead committee members to believe you were talking about a spend-based assumption rather than a take-up-based assumption.

Mr Tune—All I can say is what I have just said—our view is that it was a mix of things going in there. That is why I called it a utilisation rate.

Senator RYAN—I appreciate there is whole lot of this in *Hansard* but is it reasonable for committee members to not be clear—because I do not know if I have heard at this committee the term ‘utilisation rate’ before. We have generally heard in terms of percentage of spending.

Mr Tune—It is the term that is used in the audit report, for example.

Senator RYAN—I think you will appreciate that the audit report is relatively recent.

Mr Tune—Yes.

Senator RYAN—And last year at estimates and subsequent to that I cannot recall a blended utilisation rate being ever discussed or explored at this length. The emphasis was on spending. I take your point that that was what you did at the time.

Mr Tune—Yes.

Senator RYAN—Could you please characterise the sort of regularity and depth of your discussions with DEEWR following the approval of the reg 10 order and prior to the announcement by the government of the extra funds being allocated?

Mr Tune—I certainly don’t have a chronology.

Senator RYAN—Could we get a chronology?

Mr Tune—I do not know if we could. I can have a look. But there were certainly discussions going on, as I mentioned to you. If I can characterise it in general terms I think—

Senator RYAN—I am interested in how involved the Department of Finance and Deregulation was in providing advice on the extra allocation. You had a week to do the original costings. We have had to throw in an extra \$1.7 billion—more than 10 per cent—within months of the original appropriation. So how involved were you subsequent to that? Was it regular meetings?

Mr Tune—I could not tell you. I do not know. I am pretty sure there was regular contact.

Senator RYAN—Is there someone in the Department of Finance and Deregulation who can?

Mr Martine—We are just trying to track someone down. My understanding is that certainly around that period there were discussions between the two departments—during that June/July period of 2009—leading up to the government’s announcement in August about the extra funding. So the department certainly would have been involved, and Finance certainly costed the increase and the offset in savings as well. We are just trying to track down someone who might be able to give you a little bit more detail on the frequency of meetings.

Senator RYAN—Is it fair to characterise the development of the additional spending for the blowout in this program as something that the Department of Finance and Deregulation was approached by DEEWR about or is it something that you became aware of?

Mr Tune—No, I think they probably approached us.

Senator RYAN—For a program of this nature and through your various financial management processes, is it something that you would have become aware of at some point, other than by the relevant department?

Mr Tune—No, probably not—not until we started to see some sort of pattern of spending. At that stage the pattern of spending was just starting to emerge so no alarms would be going off in a Finance officer's head. This thing was going on a somewhat different track.

You would expect that the department itself would be monitoring this, the line agency would be monitoring this, and you would expect them to come to us at some point and signify that there were things happening that perhaps we needed to rethink.

Mr Martine—Finance monitors patterns of spending and year to date spending of agencies. A lot of questions are asked by finance officials to the relevant agency as to whether an agency is tracking above or below what they originally indicated they would be spending by month in that particular year.

Senator RYAN—Does that monitoring encompass actual spending or does it encompass entering into contracts? Because in a program like this a lot of contracts would be entered into that will involve spending either later in the financial year or in a subsequent financial year.

Mr Martine—That comes back to our earlier point that that March-April time frame was prior to any approved projects, so there was no spending and no contracts had been entered into. The point being made by the department to DEEWR at the time was, 'We understand what you are saying but we still believe this is the best estimate. But we are happy to revisit the estimates once we get some actual experience and evidence on approved projects and contracts.' At that point in March there were certainly no approved projects.

Senator RYAN—Given that a lot of significant spending was going to happen in the 2009-10 financial year rather than in the remaining months of the 2008-09 financial year, how long does it take for your financial processes to effectively set off—I think you used the term 'ring some bells' in an finance officer's head, Mr Tune—that there are some questions to ask here. Mr Martine, you mentioned that keeping track of spending triggers questions being asked. At what point does the department of finance start asking those questions, and this is a significantly large program that involves commitments in the out years.

Mr Tune—There is no direct answer to that. It depends on the circumstances and what is before us. The spend in 2008-09 was not all that large for this program: it was \$600 million on P21 out of the 12. At that point I would not have thought there was a need to 'sound the alarm bells', as I expressed it earlier. But certainly if the line agency was coming to us, we would start to ask them for some justification about why that may be occurring and be starting to work through it with them.

Senator RYAN— I have been informed, Mr Tune, and I am happy to be corrected on this, that in June 2009 there was email traffic between Finance and DEEWR trying to clarify DEEWR's language about the initial costings for the program.

Mr Tune—Yes, I think that is talked about in the audit report, in fact.

Senator RYAN—What was Finance trying to correct in terms of DEEWR's description of costings?

Mr Tune—I think we were trying to get across the point—where we started this conversation actually—around this 90 per cent utilisation rate.

Senator RYAN—Because DEEWR was not using the correct language, was it?

Mr Tune—There is no correct language. It is a term I have coined because it is used in the audit report. But DEEWR had a slightly different view about the way we had done the costing.

Senator RYAN—They viewed your costing as based on take-up?

Mr Tune—I think they may have, I do not know. You would have to ask them.

Senator RYAN—I appreciate that is a question for DEEWR. What was driving the department of finance to contact DEEWR on multiple occasions—I understand on 18 June, 14 July and 15 July—and then subsequent communications later in July with Prime Minister and Cabinet? What was triggering you to contact DEEWR?

Mr Tune—Because at that point we were in discussions around did we need to increase the estimate or not. We thought at least you have to start the discussion from where you started and have a common understanding of what that is. That would have been the purpose underlying those discussions.

Senator RYAN—But it was also to attempt to communicate to DEEWR a more accurate description of the assumptions in the costing?

Mr Tune—Yes, in a way.

Senator RYAN—Because DEEWR were making public comments about the way the program was costed which were not accurate.

Mr Tune—I cannot answer for DEEWR; you would have to ask them about that.

Senator RYAN—I appreciate you cannot answer for DEEWR. But when DEEWR was talking about the costings being based on a take-up rate of 90 per cent that was not accurate—

Mr Tune—Well—

Senator RYAN—Well you told me it is not accurate. Surely you could say the same thing if DEEWR say it is not accurate.

Mr Tune—Aren't we down to semantics in a way? I was trying to make a distinction between a take-up rate and a utilisation rate. I can understand that people would use the terms interchangeably, and that is fair enough, but I guess we were trying to be as clear as we could about how we came to the view that we did and what was underlying it. I do not think there is a lot of difference between a utilisation rate and a take-up rate in terms of a layperson's view of what those terms mean.

Senator RYAN—Mr Tune, the difference is in what you were describing to me earlier.

Mr Tune—I accept that. I am just saying that I can see why other people might use the terms interchangeably. I am not resiling from what I said earlier.

Senator RYAN—But you did not think it was appropriate for the other department to be using that term and you were trying to correct the language?

Mr Tune—It would have been preferable, I suppose. It was not the biggest issue in this by a long shot.

Senator RYAN—No, potentially the \$1.7 billion was. If I could turn to a discussion now around the home insulation program which occurred at the same time. How long did you have to cost that policy?

Mr Tune—I think we talked about this before morning tea. All of these things were happening simultaneously because they were all going into the one package. Whilst somewhat different people were involved, it was not always different people. Yes, the time frames were tight all around for all elements of that package.

Senator RYAN—I know you are getting me the exact time on the BER, but about a week would be about the same?

Mr Martine—I can probably help you here, Senator. It looks roughly like a two-week period.

Senator RYAN—So you have two weeks on this one?

Mr Martine—Once again we are talking about the January 2009 period. So in January 2009, based on my notes here, it looks like it is roughly two weeks by the time there is an initial proposal for costs through to a final costing.

Senator RYAN—Mr Tune, I know we talked about involvement of the department in the month of January with the other stimulus package. I just cannot recall: did you say you thought it was about a week to cost the policy that was the BER?

Mr Tune—Yes, but I did say I would check that.

Mr Martine—I can confirm, Senator, that it was about a week for the BER.

Senator RYAN—So it was twice as long to cost pink batts at a couple of billion as there was for BER at 14.7?

Mr Tune—Yes.

Senator RYAN—And that, again, was done at a direction from government?

Mr Tune—Yes—but not so much the direction of how long you have to cost. They all ultimately end at the point of decision. It can depend on when the proposal is provided to Finance for costing through the relevant department, et cetera.

Senator RYAN—I understand that. You had an end point, which was the government's desire to make the announcement following UEFO.

Mr Tune—Yes.

Senator RYAN—But you had twice as long to cost home insulation as you did BER?

Mr Tune—As it happened, yes.

Senator RYAN—Were you involved at all in developing the policy as well as costing it?

Mr Tune—I was not there, as I have said earlier, but I am conscious of the process from the point of view of another agency. The department of finance was involved in the discussions in providing advice to the government, yes, that is correct.

Senator RYAN—In terms of advice, without being specific, does that advice go to the nature and design of the program?

Mr Tune—To some extent it may have, yes. I haven't seen the advice that Finance provided at the time, but you would expect that to happen. That would be the normal course of providing policy advice.

Senator RYAN—It would include advice upon risks?

Mr Tune—Not necessarily, no.

Senator RYAN—May it have included advice upon risks?

Mr Tune—I do not think it did, no. The advice I have here is that Finance's advice focused on issues around payment processes, difficulty of forecasting demand as you move forward and issues around production.

Senator RYAN—Production?

Mr Tune—Production of batts basically as in material to do the insulation with.

Senator RYAN—And reliance on imports or otherwise.

Mr Tune—That is the sort of thing, yes. It was a fairly high-level economic type of input.

Senator RYAN—Did the department express concerns about what I might broadly describe as supply side issues in that it would lead to a significant growth in this industry in a very short period of time? Did the department express concerns about the viability of that being performed or undertaken in a safe or responsible manner?

Mr Tune—No, I don't think so.

Senator RYAN—If the department says otherwise, I would appreciate notice of that.

Mr Tune—I will just check. I will have to take that on notice. It is not clear. We would need to go back and have a look at the advice. Then there is another issue about that being advice that we provided to government on policy and whether I can talk about that is another matter.

Senator RYAN—I appreciate that and obviously cabinet papers, but advice to minister is not a catch-all.

Mr Tune—The advice we would have given would have been in various cabinet documents.

Senator RYAN—Sure. And if that is the case I am not pushing, but for general advice to ministers other than that, that is not a catch-all assertion.

Senator Sherry—We will take it on notice.

Senator RYAN—How did the department monitor the program?

Mr Tune—We were not involved directly in monitoring the program.

Senator RYAN—Your financial management processes?

Mr Tune—The normal processes that Mr Martin outlined before around BER, we would have those same processes in place for all government programs.

Senator RYAN—At any point did the department have, and subsequently raise with the minister, concerns about the program with its normal monitoring?

Mr Tune—No, we did not.

Senator RYAN—At no point subsequently, since?

Mr Tune—Our involvement around the review of the program commenced earlier this year and was around the same time that some concerns were being expressed. We were involved in providing advice in the lead-up to changes to the scheme. We were also involved in an exercise with other agencies on looking at management of the scheme at that point in time. That would have been around February 2010.

Senator RYAN—By management of the scheme, what are you referring to?

Mr Tune—How the scheme had been administered and so forth.

Senator RYAN—And means to improve it potentially?

Mr Tune—Yes.

Senator RYAN—What were the problems you identified in the management of the program?

Mr Tune—They fed into a report that was done for cabinet so I do not think I can go into that.

Senator RYAN—Every concern the department expressed has subsequently become a cabinet document?

Mr Tune—Can I take that on notice? I will check.

Senator RYAN—Chair, with all due respect, it is a fair bet that this was going to be raised this week at estimates. I find the assertion that the concerns the department raised subsequently became a report to cabinet, that would require that every concern the department raised subsequently is covered by the cabinet confidentiality protections.

Mr Tune—Sorry, I do not quite follow.

Senator RYAN—You cannot enlighten this committee on the concerns the department raised that were not considered in cabinet as you are sitting here now?

Mr Tune—No, I cannot.

Senator RYAN—Did the Department of Climate Change present to the department of finance a plan for cleaning up the mess that this program subsequently became and bringing the Commonwealth's financial commitment to an end?

Mr Tune—Could you just repeat that?

Senator RYAN—Has the department of climate change presented to the department of finance a plan to clean up the mess of this program?

Mr Tune—Yes. That was part of the process in the lead-up to the announcement about changes to the program. We were working with Climate Change and other agencies through that process. So we sorted all that out.

Senator RYAN—You would have been involved in the announcements about the foil inspection safety program and costing that.

Mr Tune—Yes.

Senator RYAN—Can you take on notice the number of inspections that the foil inspection safety program at \$295 million will fund—

Mr Tune—Yes, we can do that.

Senator RYAN—and that the foil inspection safety program at \$66 million will fund?

Mr Tune—Yes.

Senator Sherry—We will take it on notice, but it really is a matter for the department, not for Finance. We will take it on notice and pass it on to them. They will have that information.

Senator RYAN—I appreciate that. They would have been involved in the preparation of that. Presumably the costings that your department would have been involved in, Mr Tune, would have actually considered the number of inspections and things.

Mr Tune—Yes. It has been put into the costings—definitely.

Senator RYAN—Has the department considered any issues of liability to the Commonwealth that have arisen out of the home insulation bungalows and messes?

Mr Tune—Yes, I have some information on that. I will get Mr Edge to take you through it.

Senator RYAN—Thank you.

Mr Edge—I am sorry. I did not quite catch the full question as I was coming in. I would appreciate it if you could repeat it for me.

Senator RYAN—My question was: has the department considered issues of liability to the Commonwealth arising out of the home insulation program?

Mr Edge—We have, through the operation of the Commonwealth's insurance scheme, the Comcover scheme, received some claims for compensation from various industry participants related to home insulation.

Senator RYAN—Are there financial liability issues for the Commonwealth arising out of this scheme in view of the quite substantial problems involving loss of property and life that have arisen out of this scheme?

Mr Edge—Obviously we have taken some legal advice about matters arising from these claims. That advice is obviously legal-in-confidence. With the claims for compensation that have been received to date, liability by the Commonwealth has been denied on the basis of the information that has been provided by the claimants.

Senator Sherry—Could I clarify that. Senator, were you asking about the specific claims that have been received by Comcover?

Senator RYAN—No.

Senator Sherry—Or were you asking more generally? I got the impression you were asking more generally.

Senator RYAN—More generally.

Mr Edge—I cannot comment on the more general legal advice or comment on the advice that we have received in relation to the claims that have been lodged with us.

Senator RYAN—If we put the specific ones aside, you cannot comment on whether the department is aware of an issue, or is it concerned about a liability issue for the Commonwealth?

Mr Edge—No. Our concern is about Comcover.

Senator RYAN—Only Comcover.

Mr Tune—We administer it; therefore, we followed up those cases, as Mr Edge said.

Senator RYAN—Has the minister made any ex gratia payments that have arisen from applications, concerns or queries with respect to the Home Insulation Scheme?

Senator Sherry—What do you mean by ‘ex gratia payments’?

Senator RYAN—I understand the minister for finance has a capability to make ex gratia payments.

Mr Tune—I am not aware of any. I will take that on notice and double-check for you. You are talking about act of grace payments, are you?

Senator RYAN—Act of grace payments—sorry, you are quite right.

Senator Sherry—I can indicate to you that act of grace payments are delegated to me, except where there could be a perceived conflict—that is, a claim relating to Tasmania. So I cannot speak in respect to act of grace payments that may or may not have come from Tasmania. But in respect to other claims, no. I will double-check the record but I certainly do not recall authorising any at all under any form of payment, including under act of grace, that would relate to this program. I will double-check but I am confident that there have not been any.

Senator RYAN—This is a related question concerning the portfolio budget statement of the department of climate change. I am asking the department of finance as the agency that I understand helps to prepare those. There was an error in the climate change portfolio budget statement, wasn't there?

Mr Tune—Yes, there was.

Senator RYAN—That error was \$136 million appropriated for the Low Emission Assistance Plan for Renters.

Mr Martine—That is correct. It is not actually appropriated. The issue here is that in the department of climate change portfolio budget statement, I am assuming you are referring to an error that they have fixed with a corrigendum, which added up to roughly \$130 million. There are no issues around appropriations et cetera. There are no flow-on consequences to the primary budget papers at all.

Senator RYAN—It was effectively a typo in the portfolio budget statement.

Mr Martine—That is correct. The government had announced the closure of this scheme—

Senator RYAN—August last year, I understand.

Mr Martine—Yes, it was some time ago.

Senator RYAN—So how did it creep into the portfolio budget statement?

Mr Tune—You would have to ask DCCEE about that.

Mr Martine—They prepare those.

Mr Tune—It is their document.

Mr Martine—The department of finance—

Senator RYAN—does not oversee the portfolio budget statement.

Mr Martine—No.

Senator RYAN—I want to go back to regulation 10, Mr Tune. Over the current financial year, how many regulation 10 orders—again, I am not sure of the correct terminology—have been issued or signed by the minister for finance?

Mr Tune—I could not tell you off the top of my head but I could say ‘a lot’. We can see if we can get some numbers for you.

Senator RYAN—A lot.

Mr Tune—Can I clarify the question: how many reg 10 determinations there have been by Minister Tanner over the last 12 months?

Senator RYAN—The current financial year and the previous financial year, if you have them.

Mr Suur—We would have to take that on notice. There would be hundreds of reg 10 determinations done in any week across the whole of the APS under the delegated authority. The Minister for Finance and Deregulation would do them less regularly. I would have to—

Senator RYAN—Excuse my ignorance, but there is a threshold, I would assume, where a delegated authority has to be exercised by the minister?

Mr Suur—That is right.

Senator RYAN—What is that threshold?

Mr Suur—I will have to get the details for you but the threshold turns on how many out years are affected by the proposed expenditure and how far it goes into the future, and there is a dollar figure.

Senator RYAN—I would appreciate that. Are these published anywhere regularly that I have missed, such as on a website or in a report?

Mr Tune—They probably are.

Senator RYAN—In a comprehensive sort of way?

Mr Tune—We will try to answer this one for you after lunch if we can.

Senator RYAN—Sure.

Mr Tune—I do not think it will take a lot of research for us to find the numbers.

Senator RYAN—That would be great. If there is an easy consolidated form for them, it would be great.

Mr Suur—They are not published for the public, but there would be a record kept within Finance. That is where we would derive the numbers. It may be difficult for us to get you the number of reg 10 determinations that the minister has agreed over the two year periods you have indicated because reg 10 requests go to him from all sorts of sources. We would probably have to chase around and find that number. We will take it on notice and see what we can do and get back to you.

Senator RYAN—In advance—and I appreciate you probably cannot get all this information—if these are not published in a consolidated fashion, I will be asking you to take on notice the numbers for the current and previous financial year—just a list of the ones that the minister has approved.

Mr Tune—Just the minister's ones.

Senator RYAN—We will get some information on the threshold later. I would imagine that the threshold is low enough and that it is the minister's approvals that I would be interested in.

Mr Tune—Okay.

Senator RYAN—Now, I turn to Operation Sunlight. Being Wednesday I sometimes wish we had a bit more of it in here! I was not referring to the government then, I was referring to the lack of windows.

Senator Sherry—It is pretty dull and dismal outside.

Mr Tune—I might ask my colleagues from Financial Management Group to join us because we are probably likely to switch across to them pretty quickly.

Senator RYAN—In October 2007 the then shadow finance minister, who is now the Minister for Finance and Deregulation, released a joint statement with the then shadow Treasurer, who is now the Treasurer, about amending the Charter of Budget Honesty Act 1998 to permit non-government parties access to Treasury and Finance resources 12 months before an election for costing advice. It was one of the recommendations of Operation Sunlight, I understand. Mr Tune, at additional estimates earlier this year I believe you said that the implementation of that particular aspect of Operation Sunlight is still under consideration.

Mr Tune—I did.

Senator RYAN—And further more, that does not mean that it is not going to happen. Minister Sherry took the question on notice and the answer outlined that the government is considering options for reform. What progress has been made since February?

Mr Tune—The government made a decision after looking at the various pros and cons to proceed by providing some money to the Parliamentary Library in the budget. That is intended to meet the spirit of the government's commitment that it made in Operation Sunlight. So half a million dollars has been provided to the Parliamentary Library once every three years to coincide with election cycles to assist the library to be able to provide advice around costings and other issues to non-government members, basically.

Senator RYAN—Did you or the department have discussions with the Parliamentary Library about this before that appropriation was made?

Mr Tune—Before the budget? Yes, we told them what was happening.

Senator RYAN—Did you outline to the Parliamentary Library—and I appreciate there are restrictions in the act upon the ability to do this—the purpose for this appropriation?

Mr Tune—I might pass to Mr Youngberry, because I think he had some discussions with the library at the time.

Mr Youngberry—We did speak to the deputy secretary of Parliamentary Services as well as the Parliamentary Librarian around the measure, and that happened before the budget. We had some discussions around the intent of Operation Sunlight—the government’s intention around this measure—and pretty much left it to the Parliamentary Library to then determine the best way to implement the measure, given that they do have a degree of independence from government in terms of their operations.

Senator RYAN—They do. What did you communicate to them about the spirit of Operation Sunlight and what you might hope the appropriation would be used for?

Mr Youngberry—We outlined to them what Operation Sunlight said, which is in the document that you have referred to as well as subsequent documents issued by the finance minister. We spoke to them about what the intent behind the commitment to Operation Sunlight was and the fact that the funding was available to assist them and provide some additional resources in terms of assisting non-government members to develop policies in the 12 months before an election.

Senator RYAN—Do you envisage that that money will be used for costing advice, to use the words of the document we referred to earlier?

Mr Youngberry—That would be one of the purposes to which they could put the money.

Senator RYAN—What other purposes do you envisage it could be used for?

Mr Youngberry—Well, it is as broad as assisting non-government members to develop policies in the year before an election. There was no narrowing of the scope as part of the measure. It is really for the Parliamentary Library to determine how to go forward and do that.

Senator RYAN—Minister, this is your government going back on its commitment to allow the opposition access to Treasury and Finance for costing advice, isn’t it?

Senator Sherry—No, I do not believe so. I actually think it is a very, very good solution—a very good, practical solution for the delivery of advice to non-government parties and to Independents as well. I think it is very practical. It is providing a significant amount of funding to an independent organisation that has undoubted expertise and, obviously, a close working relationship with the various parties and individuals in the parliament. So I think it is an improved solution, frankly.

Senator RYAN—We discussed this with the Parliamentary Librarian on Monday. There is absolutely no guarantee that any of the resources can be accessed for was described as ‘costing advice’.

Senator Sherry—I think, as the officers have indicated, it is not up to Finance to instruct; I do not think it can—

Senator RYAN—No, it cannot instruct.

Senator Sherry—It has provided the money. It has provided an indication of the purposes for which it can be used. As I said earlier, I think this is an eminently suitable, practical, effective way to deliver on our commitment. Frankly, I think it is an improvement on the commitment that was given.

Senator RYAN—We can talk about enhancing a commitment, I suppose—that might be the term.

Senator Sherry—That is actually not one of my favourite words, I have to say.

Senator RYAN—Enhancing?

Senator Sherry—Enhancing, yes. There are a range of jargons—

Senator RYAN—So this is ‘enhancing’ a government promised by not fulfilling it, a bit like ‘enhancing’ private health insurance?

CHAIR—Can I just remind both you, Minister, and Senator Ryan that we are not here to have a dialogue. We are here to ask questions. I appreciate the enthusiasm you both have, but that is not why we are here.

Senator Sherry—I will use the word ‘improved’.

Senator RYAN—Is it improved to the extent that private health insurance has been improved by breaking a promise?

Senator Sherry—Look, we have already discussed that issue.

Senator CAMERON—You just want Twiggy Forrest to get his private health insurance paid, don’t you, by workers?

CHAIR—Senator Cameron—

Senator CAMERON—What a joke you are.

Senator RYAN—And your former members would like to still have their jobs and be employed by Mr Forrest. That is all I have with respect to Operation Sunlight, Mr Tune. I thought that might be the case.

Mr Tune—Okay. Thank you.

CHAIR—Are we still in program outcome 1?

Senator RYAN—Yes. I think we will be for a while, Chair.

CHAIR—Okay. You have the floor.

Senator RYAN—On budget day, Minister Tanner had a press release headed, ‘Budget delivers more than \$1.2 billion in efficiencies from government operations,’ which I believe were outlined in the 2010 budget. He also comments that the government ‘had achieved savings of more than \$8.5 billion from reducing waste and inefficiency.’ I am assuming that is since November 2007. Could you provide a list to the committee of the \$8.5 billion in

efficiencies from government operations that have been made since that date? I presume you will need to take that on notice.

Senator Sherry—We will double check the date because you have made an assumption on that. I am sure we can provide you with a list.

Mr Tune—We will take that on notice.

Senator RYAN—The press release was dated 11 May. I can give you copy if you like.

Mr Tune—That is fine.

Senator RYAN—If you could take that on notice and give us a list of all of those. I understand that there was some discussion about the introduction of common purchasing arrangements.

Mr Tune—Yes, procurement around various items.

Senator RYAN—Would it be easier if I went to procurement later on? It is described to me as purchasing rather than procurement. I imagine procurement would be in the next outcome?

Senator Sherry—Yes.

Mr Tune—If it is a specific issue, we will see how we go.

Senator RYAN—It was about Operation Sunlight but it was also about financial management. Another element of Operation Sunlight was that the department of finance undertook a process to recover unspent depreciation funds from agencies and parliamentary departments. At additional estimates in February this year, the department advised the committee that the amount was about \$600 million. Is there any further update on this?

Mr Tune—Mr Youngberry can help us on this one I am sure.

Senator RYAN—I am sorry to drag you back again.

Mr Youngberry—Could I just ask you to repeat the last part of the question please.

Senator RYAN—Yes. Can you provide an update on the process of recovering unspent depreciation funds from agencies?

Mr Youngberry—Yes I can. Are you specifically interested in the amounts that we extinguished for agencies?

Senator RYAN—I would be.

Mr Youngberry—I think the estimate that I provided at the previous hearings was that the preliminary figures from agencies was around \$600 million we expected to extinguish as part of the process. As we worked through the reconciliation with each of the affected agencies, the total amount that was extinguished was \$550.4 million.

Senator RYAN—Is it easy for you to provide a list of what you extinguished?

Mr Youngberry—It is. The extinguishment is also registered on the Federal Register of Legislative Instruments, so it is publicly available information. We can provide the breakdown by agency.

Senator RYAN—Is this an ongoing program or are extinguishments of this magnitude once-offs?

Mr Youngberry—It is a once-off.

Mr Tune—We changed the rules basically.

Mr Youngberry—There is still a process where agencies can seek reductions of appropriations if they no longer need them. That process still exists but it is more of a business-as-usual exercise. Extinguishments of this magnitude are really a once-off with the change from full accrual appropriations to net cash appropriations.

Senator RYAN—Thank you. That is all I had on that particular question. I will move to business regulation, which I believe is under this output.

Mr Tune—Yes it is. I might ask Susan Page to join us. She is the Deputy Secretary in this area.

Senator RYAN—Thank you. One of the election commitments by the government in 2007 was to adopt a one in, one out rule for all new Commonwealth regulation. Can the department give me an assessment on whether that principle has been implemented.

Ms Page—Yes, that policy has been implemented.

Senator RYAN—Using the published lists that are available on ComLaw, I am informed that in 2008-09 and up until February 2010, the number of new or amended regulations was 9,997. Over the same period of time, the number of regulations that were repealed was 52.

Ms Page—This depends on what your definition of regulation is. What definition are you using?

Senator RYAN—Legislative instruments including select legislative instruments, statutory rules and regulations.

Senator Sherry—What was that source again?

Senator RYAN—I am told it is ComLaw.

Ms Page—There are a couple of aspects to this. The first is that the way in which the government treats regulation in terms of the policies that it has in place for the improvement and filtering of good regulatory policy are both broader and narrower than the instruments that are on the ComLaw website. The government's *Best Practice Regulation Handbook*—in other words, the handbook that requires RISs, regulation impact statements, to be done—applies to any rule that the government would implement that would have the effect of obligation on business. So it is very broad definition. That is the one that we use to filter regulatory proposals that come in from agencies.

What the ComLaw website measures is acts and legislative instruments. Acts generally do have a regulatory impact, though not always, and legislative instruments have widely different effects. A large number of legislative instruments have no economic implications at all. In fact about a third of them every year are airworthiness directives, which you could argue have an economic impact but there is very little discretion involved for CASA, the decision maker, in implementing them. So the ComLaw website is useful in that it provides a comprehensive list of acts and legislative instruments moving backwards and forwards, but it does not pick up some regulatory decisions of government and it includes an enormous amount which are non-regulatory in an economic sense.

Also the ComLaw website is quite difficult to extract information from. That is not necessarily a criticism of our colleagues at Attorney-General's. It is a much better website than most of our OECD partners have. However, generally you cannot read from the website effectively to determine what the numbers are. The reason for that is that it measures all activity of legislative instruments. So, if you amend a piece of legislation or a legislative instrument, that comes up as a number. If you repeal an act or a legislative instrument, that also comes up as another piece of regulation. It is almost impossible to remove numbers of legislative instruments because you generally need a legislative instrument to repeal one and sometimes one legislative instrument can repeal several dozen.

Senator RYAN—Sure. That would be a good productivity return though—one added for several removed.

Ms Page—We have done that. The government passed an omnibus bill last year which enabled us, in effect, to get rid of around 200 pieces of redundant regulation. Certainly, we are attracted to omnibus instruments for the removal of regulation, because it is the only way you can make substantial impact on numbers.

Senator Sherry—There is legislation being introduced in the House of Representatives today in the regulatory area that removes five statutes. I cannot give you the details now because I am not sure whether it has been introduced yet, but I remember being given a briefing on this on Monday. The other point is on the ComLaw. Does that include removal of state regulations that are being reviewed?

Ms Page—No, it is Commonwealth legislation.

Senator Sherry—And there are areas where single standard national law has effectively replaced large amounts of quite differing complex state legislation in particular areas, one of which I have referred to on a previous occasion.

Senator RYAN—I appreciate that.

Ms Page—That said, examining all acts and legislative instruments introduced and removed since the life of this government, OLDP advises us that their estimate is 9,242 were introduced and 4,007 were removed, which leaves a net figure of 5,245.

Senator Sherry—Does that include removal of state—

Ms Page—No, it does not. This is Commonwealth statute.

Senator Sherry—We would have to adjust the figure because I am certainly aware, as I have indicated on a previous occasion, that the national consumer credit laws have replaced—if you aggregated the state laws—a much larger body of law. They have replaced at least state statutes and a whole raft of regulations. Another area that is now one of my responsibilities which I have not mentioned on previous occasions is the tax agents board legislation and regulations, which replace six state tax agent regulatory boards. So we have moved six boards into one and at the same time effectively removed a raft of state legislation regulation and boards which does not appear in those figures.

Senator CAMERON—Ms Page, you have explained why it is not appropriate to use the ComLaw website to determine the effectiveness or the breadth and depth of the reduction in legislation and redundant legislation. They also mentioned that there was omnibus legislation

that got rid of 200 pieces of redundant legislation. Can you just give us a flavour for how long some of that legislation was on the statute books and what some of that legislation was about and why it was redundant?

Ms Page—I do not have that detail with me. We can provide that information on notice if necessary.

Senator RYAN—I appreciate your concerns with ComLaw. At additional estimates one of the answers to a question on notice came back with statistics from ComLaw, so it is a reasonable database to use for these purposes, taking into account limitations such as airworthiness directives, which I understand there is very little discretion about.

Ms Page—Senator, I think we were asked a question about numbers. The ComLaw website provides the only proxy for numbers of legislative instruments, but our answers also qualified the fact that it looks at both a broader and a narrower set than has been envisaged by successive government policy in relation to regulation.

Senator RYAN—You mentioned getting rid of redundant regulation regimes, and I appreciate that you gave a wider definition of what constitutes regulation for the purposes of this discussion. I suppose one of the concerns is: redundant regulations are in some ways a lower burden to people if there is no need to comply with them, because ‘redundant’ means they are no longer active or required. Has the government undertaken a program to review active regulation and start removing some of those where they are deemed not cost-effective or otherwise inefficient or unnecessary?

Ms Page—We are doing a range of activities, as I think I have outlined before. We are working in the Commonwealth-state space in relation to COAG and we have 27 deregulation priorities which we are working on with the states, and those involve in the majority of instances establishing national approaches where previously there might have been seven or eight approaches. In some instances that means the repeal of state legislation, as the minister has indicated, and the establishment of national legislation, as in the case of consumer credit. In some instances it involves harmonisation of state legislation, particularly in areas where the Commonwealth lacks constitutional power, to align regulation. So it does not so much remove it but it minimises cost to business, which is the overriding objective of what we do.

Senator RYAN—I appreciate the desire for rationalisation despite being a voice against occasional relentless nationalisation of things, but that alone, plus the airworthiness directives issues you mentioned—

Ms Page—There is more. We have got quite a substantial Commonwealth agenda—

Senator RYAN—I am more interested in what has been done thus far rather than what is aspired to be done.

Ms Page—We have underway, and one is already completed, a series of what we call Better Regulation Ministerial Partnerships, which are a series of microreforms between the Minister for Finance and Deregulation and responsible ministers. The aim there is to take an area of Commonwealth regulation, look at it, and see if the efficiency of it can be improved. In some cases that means removal of regulation and in some cases it means establishment of a

better, more efficient regulatory framework. But the guiding policy objective in all of these initiatives is to reduce cost to business.

Senator RYAN—Have any of those been delivered?

Ms Page—The first one has been completed, which is one with the Minister for Health and Ageing, and it is on processes for streamlining the assessment of new medical devices. It has enabled medical devices to come onto the Australian market sooner, because there are fewer regulatory hoops for importers of medical devices such as hip joints and other prosthetic devices to come onto the Australian market. It also enables a series of assessments of those products to happen in parallel rather than in sequence, so it means that technology is available to the Australian market faster.

Senator RYAN—I appreciate that. That is one.

Ms Page—That is one. We have almost completed one that has been going for a couple of years and is quite a substantial reform, which is shortening the length of disclosure documents. That is product disclosure documents for a range of financial statements. Two have been done in relation to superannuation and home saving accounts, and there are another two about to come on-stream mid-year on more complex superannuation advice and in relation to margin lending. They have been quite significant reforms, because what they do is shrink product disclosure statements from a very large document to a small one, and that reduces cost to business but it also provides a much better outcome for consumers.

Senator RYAN—I appreciate shortening PDSs. I need to seek some advice on a couple of things but I may come back to this slightly later while we are still on outcome 1.1.

Senator FIERRAVANTI-WELLS—I have some questions in relation to the National Health and Hospitals Network, and the input of the Department of Finance and Deregulation. Yesterday evening we were told by Prime Minister and Cabinet that there were a number of departments that had input. Can you tell me what Finance's input was?

Mr Tune—We were involved in the development of the policy over a longish period of time following the release of the Bennett review last year. There was a process going on within government around developing the government's response to that. Finance, as a central agency, was, in the normal way, a participant in that, including in providing advice to the government and also in costing some of the proposals that were subsequently announced by the government.

Senator FIERRAVANTI-WELLS—Input was sought from Finance after the Bennett report—so, was it in July, August, September last year?

Mr Tune—Basically it was constantly from around that time through to the government's announcement this year.

Senator FIERRAVANTI-WELLS—And the requests came from Prime Minister and Cabinet, or from other departments?

Mr Tune—It was a process set up by government to examine the report. As is normal practice around any policy issue, PM&C, Finance, Treasury and the line agencies that have responsibility in that area get together and work through the processes.

Senator FIERRAVANTI-WELLS—Did they specifically commission Finance to do the work?

Mr Tune—The specific work where we are required to sign off things is around the costings of proposals.

Senator FIERRAVANTI-WELLS—Was that at the end of the process?

Mr Tune—It was at various stages through the process, as options were being delivered and assessed.

Senator FIERRAVANTI-WELLS—And assumptions were being discussed?

Mr Tune—Yes.

Senator FIERRAVANTI-WELLS—Do you think that, from the financial perspective, we are going to get better funding control or accountability from these new arrangements?

Mr Tune—That is probably an issue better addressed to the Department of Health and Ageing. It is not one for me to comment on.

Senator FIERRAVANTI-WELLS—Given that the funding model still leaves control within the states, surely Finance would have a view in relation to that.

Senator Sherry—You may not have been here on previous occasions, but in issues of policy outcome, Finance's observations have always been confined to the costings. That is under both this government and the former government.

Senator FIERRAVANTI-WELLS—I appreciate that. Perhaps I will reword my question. Given the parameters of the agreement that has been agreed to with the states, except for Western Australia, and certainly from the pronouncements of various premiers, it is clear that not much has changed. My question to you is this: from Finance's perspective, given that the funding model does leave control of the funding with the states, does Finance believe you will be getting better funding control or accountability out of what is proposed?

Mr Tune—Whether that comes to pass or not—I think you should ask the Department of Health and Ageing this question rather than us—it really depends on the implementation and the agreements that are struck between the Commonwealth and the states and the way they implement these things. The architecture would enable that to happen but as you work through the details you have to be cognizant of those sorts of issues.

Senator FIERRAVANTI-WELLS—The devil is always in the details.

Mr Tune—Indeed it is.

Senator FIERRAVANTI-WELLS—In your view will the work that has been done in relation to the costings result in cost shifting?

Mr Tune—Cost shifting? I don't quite understand that. The costing that has been done is assuming that we are paying certain proportions of the funds, particularly around hospitals. It assumes we are taking over certain other services from the states, and it has assumptions in there, as you would expect, about growth in funding over time, which is based on a series of issues around volumes and price, particularly in relation to hospitals. They would have been

incorporated into the costings. So the assumption is made that those things will exist and happen as we move through time.

Senator FIERRAVANTI-WELLS—Are you aware that there has been discussion around the issue of health and cost shifting between the states and the Commonwealth. Without going into the detail of where that cost shifting can occur at its grass roots level, it is an issue that has been around for some time. My question is: in broader terms, do you believe that the new funding arrangements will stop that cost shifting and how do you think that will happen?

Mr Tune—I cannot answer that. If you want to talk about cost shifting in the broadest sense it is an issue of Commonwealth state financial relationships, which is the responsibility of the Treasury. If you want to talk specifically in relation to health, it is really an issue for the Department of Health and Ageing.

Senator FIERRAVANTI-WELLS—From a Finance perspective are you confident that the Commonwealth funding to the states that has been set aside for the teaching, the research and the capital and block funding for rural hospitals will be fully used for these purposes? Is Finance confident that the parameters that have been set up will achieve those purposes?

Mr Tune—We are not involved in the detail of how these things are implemented. Setting up the architecture is designed to ensure that those things do happen. It is now up to the implementation to ensure that they happen as well.

Senator FIERRAVANTI-WELLS—In so far as the architecture was concerned, you were not involved in this component?

Mr Tune—We were involved and provided advice to the government but I am not at liberty to tell you what the advice was that I provided to the government in the context of cabinet discussions around these things.

Senator FIERRAVANTI-WELLS—I will now move to the independent pricing authority. What about the reserve powers still existing for the Commonwealth to override their determinations? Do you have a view about this?

Mr Tune—No. This is an issue that we are not involved in, in detail, at all.

Senator FIERRAVANTI-WELLS—Will the national funding authority fall under the Financial Management and Accountability Act 1997 or the Commonwealth Authorities and Companies Act 1997?

Mr Tune—Yes, under the FMA Act.

Senator FIERRAVANTI-WELLS—And will the staff be public servants? Tell me about the staffing of this authority.

Mr de Carvalho—The independent hospital pricing authority?

Senator FIERRAVANTI-WELLS—No, the national funding authority.

Mr de Carvalho—The national funding authority—I will have to check this—is not going to be a body that has public servants attached to it. It is basically a board that will oversee the funding passing from the Commonwealth into a national fund which will then be distributed into jurisdictional state funding authorities.

Senator FIERRAVANTI-WELLS—The overall commitment in relation to these authorities is that there will be no net increase in the bureaucracy. In Budget Paper No. 2, page 233, in relation to the independent hospital pricing authority, and page 236 in relation to the national performance authority, considerable sums of money have been set aside. Is that purely for establishment rather than an increase in the number of staff?

Mr de Carvalho—There will be additional staff associated with those bodies but it is anticipated that over time there will be no additional public servants. The agreement with the states and territories says—I cannot remember the exact clause—these reforms will not result in additional public servants as a percentage of the overall health workforce.

Senator FIERRAVANTI-WELLS—It is 203D. I now go to the question of beds. I am looking at the health and ageing budget papers. I am asking insofar as Finance can assist in this process; I will be going to the Department of Health and Ageing but because these are finance issues I thought I would ask them first here. In relation to the measure under ‘Hospitals: new acute hospital beds’, there is a figure in the budget papers of \$1.625 billion over four years and in separate documents that is for 1,316 sub-acute beds. How was that estimated cost of \$1.6 billion over four years for those 1,316 sub-acute beds arrived at? Is that within your purview or within Health and Ageing’s purview, or any other department?

Senator CAMERON—What page is that on in Budget Paper No. 2?

Mr Tune—On page 233 of Budget Paper No. 2.

Senator CAMERON—Thanks.

Mr de Carvalho—In relation to that particular measure, during COAG the Australian government offered an additional \$800 million towards that measure. Finance was not involved in the calculation or the determination of that amount—the additional \$800 million. We had been involved in the costing of the first \$800 million, if you like, but we were not involved in the subsequent \$800 million that was put on the table by the government at COAG.

Senator FIERRAVANTI-WELLS—Insofar as your calculations for the first tranche, was that then used in the subsequent calculations for the additional amount? Do you see what I am getting at?

Mr de Carvalho—Yes. Not that I am aware. We costed an amount of around \$800 million and then there was a subsequent amount of \$800 million.

Senator FIERRAVANTI-WELLS—In your calculation of \$800 million, did that equate to X number of beds?

Mr de Carvalho—In the initial calculation?

Senator FIERRAVANTI-WELLS—Yes.

Mr de Carvalho—Yes, it would have resulted in the calculation of a number of beds.

Senator FIERRAVANTI-WELLS—You do not have that with you, but could you take that on notice as to the actual number?

Mr de Carvalho—Yes.

Senator FIERRAVANTI-WELLS—According to your calculations, \$800 million resulted in X number of subacute beds.

Mr de Carvalho—I will have to check, but I would assume that that would be the case.

Senator FIERRAVANTI-WELLS—Could you take that on notice. If a figure of \$1.6 billion has resulted in 1,316, then one supposes that it was roughly half that amount.

Senator CAMERON—Can I come in on that point?

Senator FIERRAVANTI-WELLS—Yes, certainly.

Senator CAMERON—The agreement at COAG does not provide for simply handing over \$1.6 billion. As I read page 233, the funding is contingent upon the states providing the beds on an ongoing basis. There has to be an increase in the number of beds. Is that correct?

Mr de Carvalho—I will have to check on the detail, but my understanding is that this is part of the overall commitment to fund the state public hospitals through the National Health and Hospitals Network Fund. It will be contingent on some activity being carried out by state governments.

Senator CAMERON—It is not ‘some activity’. I think the impression being given is that it is just a \$1.6 billion cash injection. On page 233 it says:

Under the measure State and Territories will need to commit to and establish an agreed number of new sub-acute beds each year to receive a payment from the Commonwealth.

So they have to deliver the beds before the payment is made. Is that correct?

Mr de Carvalho—That would appear to be the case, yes.

Senator CAMERON—Thank you.

Senator FIERRAVANTI-WELLS—In relation to the assumptions for that calculation and insofar as obviously your \$800 million is concerned, are these purely recurrent costs or was there some capital component to your estimation?

Mr de Carvalho—No, these would be recurrent costs.

Senator FIERRAVANTI-WELLS—Thank you. What underlying assumptions would have been made, including the initial capital recurrent servicing costs?

Mr de Carvalho—Can I also add to the previous question? There is an amount of flexible funding available for capital as well as for state hospitals if they—

Senator FIERRAVANTI-WELLS—That is the \$200 million.

Mr de Carvalho—There is also a capital amount available to assist state hospitals to increase their capacity for elective surgery and for emergency income.

Senator FIERRAVANTI-WELLS—That is the \$150 million. What you are saying is that the capital component is in those two other areas rather than the beds and the—

Mr de Carvalho—That is right. There is also a commitment under the agreement that the Commonwealth will provide 60 per cent of capital funding to the hospitals. That is part of the agreement.

Senator FIERRAVANTI-WELLS—In the work that you did, did you take you take into account the marginal recurrent cost of adding beds and whether this varies from state to state?

Mr de Carvalho—I would have to take that on notice.

Senator FIERRAVANTI-WELLS—Assumptions about existing capacity or excess capacity in existing hospitals or about physical capacity restraints would obviously have an effect on marginal cost estimates. Are these the sort of assumptions you also took into account?

Mr de Carvalho—I would have to check that. I do not think so. When the government was providing additional recurrent funding there was a recognition that this might lead on to capital constraints and, therefore, the government was also putting additional capital money on the table in those previous measures that we referred to.

Senator FIERRAVANTI-WELLS—Insofar as the work that you did, is it appropriate for you to take on notice to provide to us the assumptions that were made that underlie these figures?

Mr Tune—We can do that; we will take that on notice.

Senator FIERRAVANTI-WELLS—Thank you, if you could that, that would be very, very helpful. Obviously a component of this is workforce issues and servicing the new beds. Did Finance take into account the ability of the existing doctor and nurse workforce to service these new beds at existing service levels?

Mr de Carvalho—We were involved in costing some additional workforce measures that were announced very early on in the health reform process.

Senator FIERRAVANTI-WELLS—Were those assumptions that you could also provide to us as part of that question?

Mr de Carvalho—The costing on the health workforce issues?

Senator FIERRAVANTI-WELLS—Yes, and the assumptions that you made in relation to that.

Mr Tune—Yes, we will take that on notice.

Senator FIERRAVANTI-WELLS—Thank you. Does this funding also assume costs from other sources to cover total capital and recurrent costs?

Mr de Carvalho—I am not sure what you mean.

Senator FIERRAVANTI-WELLS—Sorry, I withdraw that. That will be covered in the assumptions that you provide to me. Would your assumptions cover different cost structures from different states.

Mr Tune—I am not sure.

Senator FIERRAVANTI-WELLS—I ask that more in the context of the mix of city and country beds. Built into those assumptions, do you have different categories of subacute? Obviously, city and country differ in terms of the various assumptions.

Mr Tune—We will cover that off.

Senator FIERRAVANTI-WELLS—What is the time frame—this would be helpful—of the unit for the bed cost? I assume that would have been covered by what you do in your assumptions as well, Mr Tune—that time frame.

Mr Tune—Can we take that one on notice as well?

Senator FIERRAVANTI-WELLS—Yes, please.

Mr Tune—There is a whole series of things here we can cover off in one response, I think.

Senator FIERRAVANTI-WELLS—Thank you. I might just go to emergency—

CHAIR—Senator Fierravanti-Wells, Senator Cameron has a question on that point.

Senator CAMERON—Could I take you, Mr de Carvalho, to page 72 of Budget Paper No. 2, when we are talking about assumptions and what forced costs. I just want to take you through some of the costs and see whether these will be covered by your assumptions. We have line item 241, where the government is putting funding into more general practice training and rotations for junior doctors and is also more places on the general practice training program and line item 242 where there are increases in nurse practitioners, research and aged-care staffing levels, a rural locum scheme for allied health professionals and a rural locum scheme for nurses, support for practice nurses, support for a professional aged-care workforce, training and education incentive payments and training for specialist doctors. That is a wide range of new initiatives for improving the health system. Is this the area that you will be looking at? Are these some of the assumptions that would be included?

Mr de Carvalho—We would be looking at those. My understanding was that Senator Fierravanti-Wells was asking in particular about the workforce assumptions that may have fed into the calculation of the subacute measure.

Senator CAMERON—But these are not just subacute measures; there are a whole range of initiatives in terms of improving the workforce and providing a better health service, aren't there?

Mr de Carvalho—Absolutely.

Senator FIERRAVANTI-WELLS—I want to discuss the \$251.4 million over five years in relation to the four-hour national access targets. How was the estimated cost over five years to expand capacity within the hospital system for emergency department treatment arrived at?

Mr de Carvalho—That goes to the detail of the costing assumptions, which I am not personally familiar with. Again, it is something I can take on notice.

Senator FIERRAVANTI-WELLS—Sure. Mr Tune, is that part of the assumptions that you can provide the details on? I am going to ask questions about emergency departments and in similar terms on improving access to elective surgery. Insofar as those assumptions are concerned, can I assume that you will be able to take those on notice?

Mr Tune—Yes. If you are looking at the detail of what is underlying the costings, I am happy to do that. We can do it either as a block lot or measure by measure—it depends on how you would like it done and how much detail you would like.

Senator FIERRAVANTI-WELLS—Does that mean that you had a series of overriding assumptions for the whole reform package, if I can put it that way, and then those assumptions were carried through?

Mr Tune—No. The way you would normally do costings—and Mr de Carvalho might correct me on this—is as individual items.

Senator FIERRAVANTI-WELLS—Yes, that is how I thought you would do it.

Mr Tune—When you have a big package like this, once you have done that you need to go back, reassess and ask, ‘Do we have any interactive effects going on here where we may have double-counted or undercounted because of a flow-on implication?’ You individually cost each element first and then you go back and look at the totality and think it through.

Senator FIERRAVANTI-WELLS—Thank you. I will leave it to you to provide it in that way. Again, with the emergency departments I would like to know if this was based purely on recurrent costs or there was a capital component.

Mr Tune—Okay.

Senator FIERRAVANTI-WELLS—I would like details of the assumptions about physical capacity constraints and, obviously, the impact that this would have on the marginal cost estimates and whether the department assessed the ability of the existing doctor and nurse workforce to service emergency departments at the existing levels. And I would like details of whether the costing assumed other sources of funding to cover total capital and recurrent costs and whether there are different cost structures assumed, for example, for city and the rural hospitals.

Mr Tune—Okay.

Senator FIERRAVANTI-WELLS—In relation to the \$150.7 million over three years to boost elective surgery capacity, again, how was that figure arrived at? How was the estimated \$652.3 million over four years to reduce the waiting times for elective surgery in public hospitals arrived at? Were there assumptions about physical capacity constraints and the effects that this would have on marginal cost estimates? And, again, I would like details of the doctor and nurse workforce delivery, any other sources of funding and different cost structures for city and rural hospitals. Also, what audit functions will be put into place to monitor the national access guarantee? Are you able to assist me on that?

Mr de Carvalho—I think that will be part of the role of the National Performance Authority.

Senator FIERRAVANTI-WELLS—Okay, so it comes under that. How do you envisage that this efficient pricing mechanism will operate? Do you have some views in relation to that?

Mr de Carvalho—I think that is probably a question best directed to the health department.

Senator FIERRAVANTI-WELLS—Okay. How do you envisage that the GST changes will operate?

Mr de Carvalho—That is a question for Treasury.

Senator FIERRAVANTI-WELLS—Any questions related to the GST would be a matter for Treasury?

Mr Tune—Indeed.

Senator FIERRAVANTI-WELLS—In relation to the \$7.3 billion sweetener package, if I can put it in those terms, how will that be divided across the states and territories? Is that within Finance's purview?

Mr Tune—No, that is an issue for the Treasury as well.

Senator FIERRAVANTI-WELLS—Will the \$7.3 billion package be reduced if Western Australia does not sign up?

Mr Tune—That is also for Treasury.

Senator FIERRAVANTI-WELLS—I have a question in relation to my own portfolio responsibilities regarding ageing. Regarding 'supporting long stay older patients', on page 223—the redirection of funding—I assume that Health and Ageing approaches Finance and says, 'We would like to access money from special appropriations.' Is that how it works?

Mr de Carvalho—Yes. They would come forward with a proposal and put to us a proposal as to how that would be funded, and we would look at that.

Senator FIERRAVANTI-WELLS—Could you take on notice when that approach was made by Health and Ageing, specifically in relation to that measure.

Mr de Carvalho—I can. From my personal recollection, it was in the lead-up to COAG, so it would have been around February. I will check.

Senator FIERRAVANTI-WELLS—Thank you.

Senator RYAN—I just want to clarify. I do not plan to go into specifics. Senator Sherry, you mentioned to Senator Fierravanti-Wells the issue of the department of finance and questioning with respect to costings. Without going into specifics, it is still true that the department of finance provides costings as well as briefings and recommendations to the Expenditure Review Committee on new policy proposals, isn't it?

Senator Sherry—Yes.

Mr Tune—Yes.

Senator RYAN—And it provides coordinating comments in all cabinet submissions?

Mr Tune—Indeed.

Senator RYAN—I just wanted to clarify that to make sure. I appreciate that they are not questions—

Senator Sherry—I think we know where we are at on this issue.

Senator RYAN—I just wanted to clear up the confusion. I will go back—and this is all I will have on deregulation related issues—

Senator Sherry—As you are going back to deregulation, mentioned that there was a bill being introduced today which will highlight this issue. The bill introduced in the House of Representatives this morning, the Financial Sector Legislation Amendment (Prudential

Refinements and Other Measures) Bill 2010, obviously has a number of measures in it, but within it is the repeal of five acts. I will not read them out because they have quite lengthy titles, but it illustrates that the appearance of that on the register we were talking about earlier would come as an additional regulation. But, at the same time, the bill itself contains the removal of five existing acts from statute.

Senator RYAN—True. I concede that that is possible. On the register, when we have just under 10,000, compared to 52, there is probably not quite as many as you would expect. It would be the other way around—if there were a lot of new regulations repealing a lot more acts of parliament or regulations. You would expect that, if that ratio were applied and had been widely used, the numbers would be the other way around—a small number of new regulations repealing a larger number of regulations.

Senator Sherry—We have obviously discussed this in a fair amount of detail. I was just giving you the information of a new piece of legislation that I think highlights one of the issues that I referred to. I wanted to give you the specifics about it.

Senator RYAN—Ms Page, do you monitor—and we will have a discussion about the broader definition of regulation you mentioned earlier—all regulatory proposals by ministers when you are keeping count, so to speak?

Ms Page—We examine a number of them through the RIS process, but, if you are asking whether we keep a register of every single regulatory decision made across the Commonwealth, we do not. The reason for that is that regulatory decisions are not just made by ministers; they are also made by heads of Commonwealth agencies. They can, in some instances, even be made by secretaries and officials, depending on the nature of the way in which the decision is made. The Commonwealth requires that any regulatory proposal that has potentially a material impact on business has to have a regulation impact statement. So, through that process, we think we capture all of the material ones.

Senator RYAN—So you do not keep count, in simple terms?

Ms Page—We keep count of the ones that are material.

Senator RYAN—Could you define ‘material’ for me?

Ms Page—Those that are likely to have a significant impact on business. There is a definition around that.

Senator RYAN—How do you keep count of ‘one in, one out’, if you do not keep a wide count?

Ms Page—We certainly keep count of the offsets that we get from ‘one in, one out’. The outcome has been that we can get more from other processes even faster. In addition to some of the things that I described that the Commonwealth is doing, we have also been doing a review of all subordinate legislation made in the Commonwealth prior to 2008. As a result of that we will probably identify several hundred legislative instruments for removal.

Senator RYAN—The minister made a commitment that this principle requires that a minister seeking to impose a new regulation must try and find offsetting reductions and regulatory burden.

Ms Page—That is correct.

Senator RYAN—So how do you keep count of the ‘one in, one out’ principle if you do not actually keep a count of what comes in and what comes out?

Ms Page—We do not keep count of the net effect on total regulation because, as I indicated to you, there is not an accepted definition of that more broadly across the Commonwealth. We do, however, keep count of those that we are able to identify through the ‘one in, one out’ process and through all the other processes that I have indicated. Part of the difficulty is trying to value the stock of what is there at that moment, depending on how you define that. There is something like 36,000 or 37,000 legislative instruments in the Commonwealth. If we wanted to establish some sort of basis for ‘one in, one out’ or some sort of net count of the regulation we are interested in, we would have to go through that database and filter it and work out what was economic regulation to establish a suitable baseline.

Senator RYAN—I appreciate that it is a count from zero. Since this government was elected and made the promise, have you kept a ‘one in, one out’ count of new regulations?

Ms Page—We believe that we have identified offsets in the order of 60 through ‘one in, one out’.

Senator RYAN—How many new ones meet your definition of regulations?

Ms Page—That is 60 meeting our definition.

Senator RYAN—Out of?

Ms Page—We do not have a total count, as I indicated, of total regulation. What I can say is that we have had to expand the way in which we regard the nature of an offset, because people will come to us and say, ‘We’ve just identified 10 pieces of redundant regulation and we’re going to remove this. Doesn’t that count as, if you like, an ‘offset’?’ Therefore we do not demand a regulatory offset in relation to ‘one in, one out’ where people have already just contributed through another process. We have multiple processes.

Senator RYAN—It strikes me that you have counted to just over 60 ‘one in, one out’ successes, but you are having trouble giving me a regulations or instruments that have been introduced where there has not been one out to match one to match one in. It strikes me that you are counting only the successes.

Ms Page—No, we have had 60 outs, if you like.

Senator RYAN—Sorry; correct me if I am wrong. I thought you said those 60 had been offsets.

Ms Page—Yes, that is what ‘one in, one out’ is—that you propose a regulation and then, on occasion, people offer a regulation which they wish to have removed, amended, simplified or something that will make the operation of regulation within that portfolio easier and less costly for business.

Proceedings suspended from 12.30 pm to 1.31 pm

Senator RYAN—Could I ask some questions, Mr Tune, about some issues discussed this morning. One of them, which you will probably be able to explain quite easily, was regarding the impact on the budget numbers of deferral of the CPRS and the comments outlined on page 9 of Budget Paper No. 2. You outline there that the deferral of the CPRS:

... improves the fiscal balance by \$2.7 billion over five years from 2009-10—

and it improves the underlying cash balance by just under \$415 million over the same period. I would imagine that this is cash versus accrual accounting, but I was wondering if you could provide some more detail around the \$2-odd billion difference between the accounting of the two.

Mr Tune—You are quite right, Senator, it is the difference between accrual and underlying cash. Basically, on the fiscal side, under the CPRS as it was announced by the government, there was to be some advance sale of permits, and the way the money would come through to those was treated differently—this is the proceeds, the receipts—according to whether it was under cash or under fiscal balance. In very general terms, that is the explanation. I am just seeing if I have something more here that might give you a bit more detail.

Mr Martine—I can add a couple of comments and then, if are you after a really technical explanation, we can grab our accounting experts next door. Essentially, under underlying cash, the future-year permit sales are booked when cash is actually received, so you sell a permit and the cash comes in, which has an underlying cash balance effect. Under fiscal balance, the permit revenues are allocated to the year the emissions occur. That basically means there is about \$2 billion of revenue which is pushed beyond the forward estimates. The \$2 billion as a result of that largely explains the difference. There are other things that are jumping around, but that is the main explanation.

Senator RYAN—So it is, effectively, booking the cash coming in versus booking when the permit is used, which is when the emission occurs.

Mr Martine—That is right. You recognise revenue when the permit is required.

Senator RYAN—Yes. Thank you very much. That is very helpful. I want to continue on the deregulation issues I was talking about before. I am sorry to make you jump around, but I just had to follow up on that.

Mr Tune—That is okay.

Senator RYAN—This should be the last of the deregulation issues. Ms Page, I quoted from the *Financial Review* on 17 December last year, which had Mr Tanner addressing the Sydney Institute on 26 February 2008. He said:

Regulatory proposals will not come to Cabinet unless the OBPR agrees that adequate regulatory impact analysis has been performed.

You outlined to me earlier the approach of the regulatory impact statements. Has every regulatory proposal that has gone to cabinet had an adequate regulatory impact analysis performed?

Ms Page—I think that is a question for my colleague, the executive director of the Office of Best Practice Regulation, Mr McNamara.

Mr McNamara—The simple answer is no, not every proposal that has gone to cabinet has required a RIS.

Senator RYAN—What proportion of proposals that required a RIS have gone to cabinet without a RIS? If you cannot give me a proportion, what numbers?

Mr McNamara—We publish numbers in our annual report each year. Each December we publish the number of regulatory decisions that did not have a RIS associated with them. That has a complete outline of our compliance over the financial year that has just gone.

Senator RYAN—This is the noncompliance, when things are classified as noncompliant, is it?

Mr McNamara—Yes, when we determine that there should have been a regulatory impact statement and there was not. As we were saying before, regulatory decisions are made in a number of contexts, so they are not just cabinet decisions. They can be decisions made by a board, a committee or an individual minister. Noncompliance is not just exclusively matters for cabinet. In the last financial year at the decision-making stage we had 85 per cent compliance with our RIS process.

Senator RYAN—That is a fall from 90 per cent in the previous year, isn't it, Mr McNamara?

Mr McNamara—That is right.

Senator RYAN—What explains this fall?

Mr McNamara—There are a range of factors that—

Senator RYAN—I'm sure there are!

Mr McNamara—There is not just one factor as such. There are a number of reasons why RISs were not prepared. One of the problems we still have is an understanding of our system. At the moment one of the aspects of our system is that agencies self-assess whether they need to do a RIS or not. Some agencies will come to the OBPR in the normal course of events and ask whether their assessment is correct. Other agencies do not, and that is their right, but in the end we make the judgment in our annual report whether they should have done a RIS or not.

We still have a number of noncompliers where the agencies in question have said, 'This is going to have no impact or a low impact,' and have gone ahead to cabinet, for instance, or to a minister to make a decision where they should not have been doing that. That is one of the things that we are looking to change in the system at present, and from 1 July the system will change so that we are making that original assessment up-front rather than the agency.

Senator RYAN—So from 1 July an agency has to get your approval before it can progress?

Mr McNamara—Yes. At the moment they can self-assess. We are removing the self-assessment and saying that they have to come to the OBPR up-front and we will say whether or not they need a RIS.

Senator RYAN—How many applications do you expect in that regard in the next financial year?

Mr McNamara—I think we are up to 700 or 800 in terms of the preliminary assessment process. That is the system where everyone self-assesses. We tend to get that sort of magnitude of people coming to us saying: ‘Here’s our preliminary assessment. Do you agree with us that this needs a RIS?’—or doesn’t need a RIS, as the case may be. I would suspect there would be a bit more on top of that 700 to 800 in terms of the number of proposals—in the order of 1,100 or 1,200 inquiries a year to our office.

Senator RYAN—What is your target for compliance this year?

Mr McNamara—We hope for 100 per cent compliance. That is our target. In the COAG world we get quite close to that. In the last couple of years we have had only two or three matters. We want 100 per cent compliance with the system.

Senator RYAN—Is the OBPR concerned that in the second year of this procedure’s operation there was a six per cent fall in the degree of compliance?

Mr McNamara—The fact that compliance is falling is not good, and it is something that we are looking to try and address. We are looking to adjust the system and make several changes to the system from July. We are hoping that those changes will assist in increasing compliance.

Senator RYAN—Exemptions can be granted from this procedure, can’t they?

Mr McNamara—That is right. If you are granted an exemption by the Prime Minister, you are compliant with the system.

Senator RYAN—And that is the only way in which an exemption can be granted?

Mr McNamara—Yes, by the Prime Minister.

Senator RYAN—The CPRS was provided with an exemption, wasn’t it?

Mr McNamara—The target set by the CPRS was subject to the Prime Minister’s exemption, but the actual CPRS system itself was subject to an adequate RIS.

Senator RYAN—Sorry?

Mr McNamara—It did have an adequate RIS. The actual system—the legislation as such—did have an adequate RIS.

Senator RYAN—So it was only the setting of the target?

Mr McNamara—It was only the setting of the target that was granted a PM’s exemption.

Senator RYAN—What about the Fair Work bills?

Mr McNamara—They were also granted a PM’s exemption.

Senator RYAN—That would be something that, if it were not granted a prime ministerial exemption, you would normally expect to have a significant impact upon business, wouldn’t you?

Mr McNamara—Yes, but the way the system is designed is that, if you are given exemption, you still have to do a post-implementation review. So within one to two years of the regulation coming into existence, the agency is essentially required to do a RIS—what we call a post-implementation review. The difference between a RIS, that you would normally do

up-front, and a post-implementation review is the impact analysis, which we would expect to be quite exact, because the regulation is actually in force, so you are not having to estimate what the impact is going to be.

Senator RYAN—The impact of any potential downside of the regulation would already have been felt.

Mr McNamara—That is right.

Senator RYAN—The ability to avoid regulatory problems prospectively has been lost.

Mr McNamara—Yes. You cannot do it prospectively at that stage.

Senator RYAN—In relation to the bank deposit announcement, was that declared exempt or was it simply noncompliant?

Mr McNamara—I am pretty sure the bank deposits were actually noncompliant. The setting of the threshold under the financial claims scheme was noncompliant.

Senator RYAN—Unit pricing by grocery retailers?

Mr McNamara—Yes. I think that was the year before. That was not 2008-09, but I am pretty sure that was also noncompliant.

Senator RYAN—That would have a fairly significant business impact, wouldn't it?

Mr McNamara—Yes. That is why a RIS would be required, because it was going to have a significant impact on business.

Senator RYAN—So that was noncompliant by virtue of the government or the minister or the relevant authority not undertaking the required assessment before the promulgation or otherwise of the regulations?

Mr McNamara—That is right.

Senator RYAN—In relation to the rules requiring payment of temporary visa holders' unclaimed superannuation to the Commonwealth once the visa holder has departed Australia, that was noncompliant?

Mr McNamara—That is right, that was noncompliant.

Senator RYAN—Regulations regarding the non-operating holding companies of life insurance companies?

Mr McNamara—I am not sure about that one.

Mr Tune—What was that one again?

Senator RYAN—Regulation of the non-operating holding companies of life insurance companies. It is not something with which I am hugely familiar myself.

Senator Sherry—No, neither am I. We will have to take that on notice.

Mr Tune—Yes, I cannot find any reference to that.

Senator RYAN—You have said that the only capacity for an exemption from the process is from the Prime Minister. The OBPR cannot grant an exemption?

Mr McNamara—No, we cannot grant an exemption. We can only say, ‘The impact is going to be no or low and therefore you do not have to undertake an RIS.’

Senator RYAN—So if you say something is ‘no or low’, it is effectively the same but it is not ‘an exemption’?

Mr McNamara—No.

Senator RYAN—They do not have to undertake it?

Mr McNamara—No.

Senator RYAN—Did you make such a determination about introducing tiers to private health insurance, with thresholds or means testing?

Mr McNamara—I would have to take that on notice.

Senator RYAN—That may have been an exemption granted by the Prime Minister. I am not sure.

Mr McNamara—Yes. There are a number of aspects to that, and I am not totally sure if that is covered by the Prime Minister’s exemption or not. I do not know the exact details of what was exempt in that space.

Senator RYAN—Is the Prime Minister required to provide reasons, or is it just an exemption that the Prime Minister can grant?

Mr McNamara—No. It is just an exemption that the Prime Minister can grant.

Senator RYAN—Was an exemption granted by the Prime Minister or a low- or no-risk classification granted by your office with respect to reducing the cap on concessional superannuation contributions?

Mr McNamara—Yes, it was granted a Prime Minister’s exemption.

Senator RYAN—And various measures relating to the bans on short selling on the stock market?

Mr McNamara—Yes, that was also granted an exemption.

Senator RYAN—We have some fairly substantial regulatory mechanisms that have been granted exemptions by the Prime Minister, haven’t we, that would normally be required to provide a RIS?

Mr McNamara—Yes, they would normally be required to provide a RIS.

Senator Sherry—On short selling—because I was involved in that as an issue—ASIC itself implemented the temporary prohibition on short selling, permanent on naked short selling, subsequently confirmed by legislation. I would hate to have been waiting around to do an RIS, given the state of the markets and ASIC’s need to act on short selling over that weekend of—I cannot recall the exact date in 2008. I do not think a financial regulator would have been waiting around for an RIS in those circumstances.

Senator RYAN—No, I appreciate that. It strikes me that sometimes the sum of the parts can be greater when one looks at a series of measures that on their own may all be contestable

or otherwise justifiable for not having regulatory impact assessments. But when you add them all up, we are seeing a fairly substantial portion of government activity over that period.

Senator Sherry—When you say ‘fairly substantial portion’, yes, there are some significant areas, but in terms of the totality of the work of government it seems to me to be a small minority of the totality of the work of government. I would not even go so far as to describe it in its totality as a significant minority of the work of government.

Senator RYAN—I would also suggest, Senator Sherry, that if I excuse for a second the short selling of stocks, there are five others here: the decision on the cap in 2050 and the establishment of an emissions trading scheme; a new industrial relations scheme and the Fair Work bills; private health insurance tiers, whether they relate to thresholds or means testing; tax concessions on income earned by Australians overseas; and reducing the cap on concessional superannuation contributions. Those five issues may represent, in your words, a significant minority of government activity but they also represent a substantial proportion of what might be politically contested government activity.

Senator Sherry—I do not know that. I would not even agree with that. I think there are many areas of activity of government, outside of the five that you referred to, that are contested areas of government.

Senator RYAN—Those five have all represented, I think, substantial debates in the Senate, some having passed and some not.

Senator Sherry—Sure.

Senator RYAN—It concerns me that the Prime Minister may be granting exemptions here to those areas of legislation and regulation that are the most politically sensitive.

Senator Sherry—There is certainly an element of political sensitivity in some of those measures, but I would not classify them necessarily as the most politically sensitive. But that is a debating point.

Senator RYAN—I appreciate that.

Ms Page—Some of them relate to parts of the decision as well. In relation to the Carbon Pollution Reduction Scheme, there has been a very substantial RIS done, which was presented at the time the bill was introduced, on the implementation of the scheme, which was assessed as adequate by OBPR. Often these relate to aspects of the way in which the decision progresses, and it is not unusual to have one RIS at a decision point or at a particular decision point which is scoping the initiative and other RISs as the particular initiative is implemented or introduced into the parliament. So it is not necessarily the case, in relation to all of the initiatives that you indicated, that there was no RIS on any aspect.

Senator RYAN—No. I did not mean to convey that. That is why I tried to use the term about the cap, as Mr McNamara mentioned earlier. They are the only questions I have with respect to deregulation, Chair.

Mr Tune—We were talking about regulation 10 before lunch.

CHAIR—Yes.

Senator RYAN—One of my favourites.

Mr Tune—I hesitate to go back to it, but you were asking about the delegations that exist for various chief executives and so forth.

Senator RYAN—Yes.

Mr Tune—I have here an extract of chief executive instructions, which I am happy to table, which sets down how they are delegated. Basically, the way this works is that the delegations are listed here. Anything extra on top of that rests with the minister for finance.

Senator RYAN—Thank you.

CHAIR—I assume you are continuing in output 1?

Senator RYAN—Yes. Minister Sherry, this may be a question for you, but you may want to refer it to Mr Tune. In the *Australian* last week, 18 May, there was an article that outlined that BHP investors can probably look forward to getting a note shortly from finance minister Lindsay Tanner, and a reliable source had informed the journalist that a person, whose name I will not use, has asked BHP for a copy of its share register. Is the minister for finance writing to shareholders of BHP?

Senator Sherry—I will have to take that on notice.

Senator RYAN—Could I then ask you to take the following questions on notice: if access to the BHP share register is now in the hands of the minister's office or the department, who paid for access to that register or was it granted by BHP? Who is paying for the production and mail and other associated costs of sending such a letter, if it indeed is going out? Can a copy of the letter be provided to the committee? In whose hands are the addresses of the shareholders of BHP? If they are in the hands of the department, have they been passed to the minister's office? If they are in the hands of the minister's office, are they going to only stay in that minister's office or be passed outside it to another minister's office or, indeed, to an organisation not part of the government?

Senator Sherry—I will have to take those questions on notice.

Senator RYAN—Could I also ask if that is happening with respect to any other mining company, because this obviously refers to potential communications with respect to the mining super tax.

Senator Sherry—Okay.

Mr Tune—Can I just say that I am not aware of any information sitting within the department of finance.

Senator RYAN—I appreciate it is a newspaper article and I cannot attest to the veracity of the claims.

CHAIR—While you are looking to go on, the document that we discussed in our private meeting this morning, the one where we were seeking clarity for it being in confidence, if you want to table that now the committee can accept that, that it has been verified that it is already public.

Senator RYAN—I am happy to table it now, yes.

CHAIR—If you would like to table that. I think Senator Ronaldson actually had the document, so if he can bring that in. If you can get that and then we can table it. We have now clarified that situation, thanks very much. Senator Ryan, you have the call.

Senator RYAN—Thank you. Could I move to public sector-Public Service travel, Mr Tune.

Mr Tune—Yes. I will need my expert on this one as well, I am afraid.

Senator RYAN—Thank you. I just want to ask some questions about the whole-of-government procurement arrangements for travel that were announced or otherwise appeared in the media and then we saw in the budget. Under these new arrangements, are there particular targets for use of air carriers?

Mr Grant—No, there are no targets. However, there is a new policy which is called the 'lowest practical fare'. The lowest practical fare aims to ensure that the cheapest fare on the day to meet the business need is used.

Senator RYAN—Could you explain to me how that differs from the previous best fare of the day policy?

Mr Grant—Yes. There was some conflict between the two. By bringing in the lowest practical fare and by doing a couple of other things, we expect that we will get a better outcome in choosing the lowest, most appropriate fare for the business travel. The best fare of the day was solely about the price of the fare; together with that, also the business need. We have now put in place a system where the traveller basically has to think about a time window for flights. For example, if you need to be in Sydney at a meeting at 10 am, you need to work back from that meeting and decide about when to arrive at the airport to get to the meeting. We have put a 45-minute window in there to enable a better choice of fare and hence probably a better choice of best fare of the day. That same window works at the end of the day in terms of coming back. That is how we think we will get a better outcome.

Senator RYAN—Is that window a process by which an individual person is meant to make a booking, or is it a system you are setting in place that confines or limits their behaviour?

Mr Grant—The window is not built into the system, unless they actually talk on the phone to a travel management company representative. But if I understand how it is going to operate, at least initially, the person will have to work out, if they are leaving Canberra to go to wherever, what is the latest flight they can take to get to their meeting on time, take 45 minutes before that flight and then, with the travel agent or using an online booking tool, pick the lowest practical fare that meets that requirement. It is not automated, but the process is relatively transparent.

Senator RYAN—Are you looking at automating that? Is that under consideration?

Mr Grant—I think at this moment we have not actually looked at it, but now that you have raised it, it is something that we will look at. What we have, though, is a transition period. We do not have a high use of online booking at this stage. We are in the process now of transitioning—because this comes into effect on 1 July—effectively 104 agencies across to a new system and new fares and things like that. So it is not something that I think will happen in weeks, but it is certainly something that we will look at in terms of the online booking tool.

Senator RYAN—How is the success or otherwise of this new approach being monitored and how are you measuring whether there is compliance, because I assume your key metric of success is cost.

Mr Grant—That is right. The key benefit is the reduction in the prices of airfares and we have been able to negotiate that on a whole-of-government basis. The second element is that, in terms of the lowest practical fare policy, if an officer chooses not to take the lowest practical fare, there is a requirement, which will be built into the online booking tool, to explain why the officer has not chosen the lowest practical fare. That will provide an audit trail in terms of implementation of the government's policy.

The second part is that, as we went through this process, we did not really have a lot of good information about Commonwealth government travel and travel patterns. We now have much better information. But in terms of the contracts that we have with the airlines and the travel management service companies, we will have a much better idea of government travel patterns. So we should be able to pick out potentially—and agencies certainly should be able to pick out—where there is noncompliance.

Mr Tune—If I can just add to that, the other issue here of course is around costs, and the cost savings that we are estimating from this have been taken out of agency budgets. So we are taking it out in advance. That provides quite a strong incentive to comply with the policy.

Senator RYAN—For local enforcement, so to speak.

Mr Tune—Indeed.

Senator RYAN—You mentioned that audit trail, Mr Grant. That is dependent upon someone making those calculations when they are in the online booking system. It is a departmental behavioural change, isn't it?

Mr Grant—It is.

Senator RYAN—Under the old system, the 25 per cent target was not quite working, for various reasons, but you are still dependent upon achieving a degree of behavioural change, aren't you?

Mr Grant—We are. That is correct, but we are giving officials the tools to understand what they are required to do.

Senator RYAN—Sure. Are you able to either take on notice or give me now—probably on notice—the total air travel budget for the APS and, if you have it separately, for parliamentary related?

Mr Grant—I can give it to you in broad terms. For the APS, it is in the vicinity of half a billion dollars annually.

Senator RYAN—You said \$500 million?

Mr Grant—Yes, \$500 million annually. I will get back to you on the parliamentary travel.

Senator RYAN—Sure. Is it possible to get me a more specific number on APS travel?

Mr Grant—Not really, and the reason for that is that the travel is not recorded on AusTender because trips are less than \$10,000. So what we have done is effectively taken the

best information we can from departments and from the airlines. In going through this process, we had to liaise with departments and they appeared to be reasonably comfortable with the amount of travel that we estimated.

Senator RYAN—Don't departments have a system whereby they can just tell you how much they have spent on airfares?

Mr Grant—To some degree. I do not understand why, but it has been quite difficult at times to understand just what air travel is. Sometimes I think travel, accommodation, car hire and other travel costs can become combined, so they cannot split them out.

Senator RYAN—Sure. That is a fair point.

Mr Grant—But what we will have through this contract is an actual knowledge of what we are spending annually.

Senator RYAN—Can you get me the most specific number you have? I imagine that, when you were undertaking this process and you were speaking to the airlines, without revealing any confidential information, you did have a slightly better idea than, 'About \$500 million.'

Mr Grant—The best I can give you is \$500 million in total. What we did do is look at the top approximately 40 agencies and come up with their total travel spend, so I could give you that bottom line.

Senator RYAN—Could you give me that list of agencies and their travel spend each? That, I would imagine, would approximate the vast bulk of that \$500 million.

Mr Grant—I will certainly give you the travel spend. I will check on giving you the agencies, so I will take that on notice.

Senator RYAN—I would appreciate that. If you cannot give me the travel agencies, I would appreciate a particularly good explanation, because I cannot think of a reason why that would not be—

Mr Grant—No, that is fine.

Senator RYAN—Is there any plan to otherwise encourage those various people, including politicians, who have acquired frequent flyer points to utilise them? Are there any plans other than what we have seen announced which is, I think, encouragement?

Mr Grant—In terms of using frequent flyer points, we have not moved in procurement to any policies that are about entitlements and other things. We focus very much on getting a price reduction in the fares. So, no, we have not done that as part of this process.

Senator RYAN—I understand that a feasibility study has commenced into a similar whole-of-government approach to hire cars and accommodation. Can you give us an update on where that is?

Mr Grant—It is at very early stages. At present, we are scoping out what information we have and what information we need to get. We learned a lot through the international, domestic and travel management services process in terms of making sure that we are very clear what we need upfront. The team that will be doing that work is still in the process of being formed.

Mr Tune—It is probably fair to say it is at the prescoping stage.

Senator RYAN—Prescoping?

Mr Tune—Yes.

Senator RYAN—Do you have any target savings from that or anything like that yet?

Mr Tune—Not at this stage. We need to do a lot more analysis. I think you mentioned a combination of short-term car hire. The other one we are looking at in that context is travel cards as well.

Senator RYAN—What do you mean by travel cards?

Mr Tune—Cards that people can use to pay the bill.

Senator RYAN—Corporate cards? Amex cards?

Mr Tune—Yes.

Senator RYAN—That is all I have on travel. Thank you, Mr Grant.

Senator Sherry—You asked a series of questions about BHP's share register.

Senator RYAN—Yes.

Senator Sherry—The answer is no to all of them.

Senator RYAN—Thanks for getting back to me so quickly. Mr Tune, I understand that, as well as a whole-of-government travel approach, there was also something similar with respect to recruitment advertising?

Mr Tune—Yes. Mr Grant had better stay.

Senator RYAN—Sorry, same people? I thought you were just concerned with the front part, the travel.

Mr Tune—Mr Grant looks after Procurement Division, so it encompasses a whole lot of these coordinated procurement measures.

Senator RYAN—Could you, Mr Grant, give us an update, a brief outline of that project and its status?

Mr Grant—In relation to recruitment advertising, the government was very concerned with the amount of money being spent and was looking to find ways to reduce the level of expenditure. About 18 months ago, a first stage of changes took place. Some guidelines were provided. They basically said no use of colour and they set the size of recruitment ads that would be placed in newspapers. With that, there has been a very high compliance and there has been a significant reduction in the amount of expenditure. It is difficult to state the amount of reduction because the data that we had included not just recruitment but also tender notices and a whole range of other things. But we know that it has come down quite considerably.

The next stage, which comes into place on 1 July this year, is that instead of having individual advertisements for positions or agencies running what we call composite advertisements for many positions, they will have a whole-of-government composite advertisement. That is very similar to what many of the governments—ACT, Victoria and others—use nowadays.

Senator RYAN—Sure; I know that.

Mr Grant—We are in the process of implementing that. That again will lead to reductions in price. It also recognises that print media is not the only way we go about recruiting nowadays and there is an increasing use of online media. That is being encouraged as well.

CHAIR—Senator Ryan, Senator Cameron has something, for which he did not get my attention, in relation to queries about travel; if he can deal with that.

Senator RYAN—Sure.

CHAIR—Plus, can I remind the committee that we are dealing with outcome 1. We seem to have jumped over to program 2.1.

Senator RYAN—My apologies. That is my fault.

CHAIR—That is fine, but we have to come back to the others because there are other senators coming in. Senator Cameron has a follow-up question and then I will go back to you, Senator Ryan.

Senator CAMERON—Thanks. Mr Tune, the coalition has announced an additional \$350 million worth of alleged savings across the forward estimates from travel. This is on top of the \$160 million the government has already announced from the work that the government has carried out. What would be the impact on services from an additional cut of this magnitude?

Mr Tune—It is very hard to say, but we have just gone through a process of tender arrangements, which Mr Grant has been describing, with the airlines and the travel management companies. Those contracts are set in place for a number of years. I would assume that our scope to reduce price even further in the short term is going to be somewhat limited. After that process period is completed, it may be possible to press that a bit harder. My expectation would be that to achieve further savings you would have to reduce the volume of travel as distinct from the price of travel. I would have thought that would be the main way that you would be able to achieve that.

Senator CAMERON—What does \$350 million represent in volume of travel?

Mr Tune—That was over four years, I think, from memory. If we say the \$500 million that Mr Grant mentioned per annum is approximately right, that is \$2 billion over the four years. So it is a 17½ per cent cut.

Senator CAMERON—A 17½ per cent cut?

Mr Tune—Yes. That is a very rough number.

Senator CAMERON—How would you deal with that type of cut in practical terms?

Mr Tune—That would just mean a reduction in travel by a lot of public servants—and politicians, I am assuming, as well.

Senator CAMERON—You say that it will be very difficult to achieve because contracts will be locked in.

Mr Tune—On price, yes. On volume, you have perfect variability. You can change volume. You just require people to travel less.

Senator CAMERON—How would you determine priority for travel?

Mr Tune—You would have to do that within the agency. You would probably have to ration it reasonably toughly.

Senator CAMERON—The priority is for members of parliament?

Mr Tune—I think members of parliament would have priority in terms of attending parliament, certainly.

Senator CAMERON—Some people may not think that is a good idea!

Mr Tune—I do not think I had better go there! Parliamentary travel of course is administered somewhat separately from—

Senator CAMERON—Parliamentary travel is not the only travel that parliamentarians do obviously.

Mr Tune—True, yes. But all official travel is run separately within the Department of Finance and Deregulation.

Senator CAMERON—It is very seldom that I use air travel to come to Canberra because I live in Sydney. The bulk of my air travel is through committees, which are a fundamental part of the operation of the Senate.

Mr Tune—Yes, in which case official travel is covered. We cover that through the parliamentary entitlements.

Senator CAMERON—But we could be faced with cutbacks in terms of—

Mr Tune—It would depend on how you wanted to apply those savings.

Senator RYAN—On a point of order, Chair: again, Senator Cameron has had a lot of latitude on these hypothetical scenarios. This is the fifth or sixth question that is purely hypothetical.

CHAIR—Senator Ryan, I will address your point of order and I will remind Senator Cameron, as I have other members of the committee, about putting hypothetical questions to witnesses, knowing full well that they cannot respond to a hypothetical.

Senator CAMERON—They put these loopy things out and then they cannot—

CHAIR—Senator Cameron, I will remind you and other senators to use appropriate terminology when putting questions.

Senator CAMERON—Yes, thought bubbles.

CHAIR—Senator Cameron, you have the call.

Senator CAMERON—Thanks. What about Defence? How would Defence deal with this issue?

Senator RYAN—Hang on. Now we are truly hypothetical. It is not even the department at the table. Chair, I ask you to say that Senator Cameron is out of order.

Senator CAMERON—It is about how we spend money.

CHAIR—Senator Cameron, you have the call.

Senator Sherry—Defence are not here. I would have to take that on notice. Although I have been so cooperative with both opposition and government senators at other estimates, I have taken questions on notice and then passed them onto the relevant department.

Senator CAMERON—I would like you to do that.

Senator Sherry—I think on this occasion, Senator Cameron, the spirit of cooperation has reached the limit of its defence.

Senator CAMERON—You're tough! Thank you.

CHAIR—We have formally received the documentation from Senator Ronaldson which we have agreed to table and make public. Thank you, Senator Ronaldson.

Mr Grant—Madam Chair, can I just give an answer that I took on notice. In terms of ministers, parliamentarians and their staff, the annual expenditure is about \$96.5 million.

Senator RYAN—That was politicians and staff, was it?

Mr Grant—Yes.

Senator RYAN—Is that part of the \$500 million?

Mr Grant—No.

Senator RYAN—That is additional to the \$500 million?

Mr Grant—That is additional.

Senator RONALDSON—I do need to ask a question about the removal of this government advertising, 2.1 procurement framework, across to tomorrow. I do not know whether now is the right time to ask for the rationale for that change. I understand that it was agreed to by the committee, but I want to get an understanding of the rationale, because it of course is unprecedented for it to go across and take up time in Ministerial and Parliamentary Services and AEC.

CHAIR—Senator Ronaldson, I cannot recall if you attended the private meeting or not. You may not have been there, but Minister Sherry advised this morning that that area of responsibility is not his and that Senator Ludwig had responsibilities in another estimates hearing; therefore, he gave the option of either taking all of those questions on notice or moving it over to tomorrow where we have the actual minister, and all committee members, including the opposition, agreed to that.

Senator RONALDSON—So that I am clear, historically, Mr Tune, I think that you have answered my questions in the main—sometimes it is Senator Sherry, but in the main—during general questions in this part of the portfolio program. Is that not right?

Mr Tune—Yes, that is true, but it has usually been when Senator Ludwig has been here.

Senator Sherry—Yes.

Senator RONALDSON—I do not think so. I stand corrected—

CHAIR—Senator Ronaldson, if you wish to pursue this, we would need to have another private meeting because it has been a decision of the committee.

Senator RONALDSON—I understand that, Madam Chair. I just want to clarify that historically—and I think if you look back through previous *Hansard* certainly since we have been in opposition—and I stand corrected, my clear understanding is that advertising questions have been asked of you and Senator Sherry, Mr Tune. In the old days, when we would actually have a series of general questions before we got onto this portfolio specific approach, they were indeed asked in those general questions.

Senator Sherry—Senator Ludwig has specific responsibility. I am trying to recollect when that change of ministerial responsibility occurred.

CHAIR—I appreciate, Minister, your contribution, but this is a decision of the committee, in consultation with the opposition. There was no objection to that at the meeting, so I think we are wasting valuable time now and I do not propose to allow a debate about it. Senator Ronaldson, did you have some questions on travel?

Senator RONALDSON—I was listening, obviously, in my office and there was mention of frequent flyer points. I do have some questions of Senator Ludwig tomorrow in relation to staff, but I assume that Minister Ludwig will not have the necessary officers there tomorrow to talk about the principles of this change. Is that right? Therefore, I probably will not be able to ask questions about it.

Mr Tune—That is probably right. We would be more than happy to take issues around the principles now.

Senator RONALDSON—Madam Chair, with indulgence, because these are tied together, as you will understand, with staff—

Senator RYAN—Could I add something to this, Chair? It was not specifically discussed at the committee's private meeting this morning, but I was of the understanding—I do not think unreasonably—that, if the questions were to be directed to Minister Ludwig tomorrow about advertising procurement, we would have the relevant officers at the table, or someone able to answer questions.

Mr Tune—Yes, that was the idea.

CHAIR—Yes, they will be.

Senator RYAN—Sorry. I misunderstood your answer then.

Mr Tune—I thought Senator Ronaldson's question was about the relevant officers around the table.

Senator RYAN—I thought he said they were not going to be here.

CHAIR—No, they were.

Senator RONALDSON—I thank Senator Ryan for clarifying that because that is obviously—

CHAIR—I am sorry. I thought that people were clear on that understanding. Are we now dealing with travel?

Senator RONALDSON—Yes, thank you.

CHAIR—We have moved out of procurement as well. We have gone into that, but we are going back to outcome 1 after this.

Senator RONALDSON—I was anxious not to miss the boat, Madam Chair, it having been raised and then discussed.

CHAIR—You have the call, Senator Ronaldson.

Senator RONALDSON—Thank you. Mr Tune, my difficulty is that I do have staff related travel matters, which of course are the domain of Senator Ludwig and which I will ask him about tomorrow. I understand—and I had hoped to have got it by now but I have not—that back in the June 2002 estimates, in response to a question from Senator Conroy, the department confirmed the general position—I understand with the chairman of the Finance and Public Administration Legislation Committee—that frequent flyer points may be considered a contingent form of property. In this case it related to senators and members, but presumably the same thing would apply to the staff that I am going to discuss this with, with Senator Ludwig, tomorrow. Is it the government's view that this position has changed in relation to a contingent form of property?

Mr Tune—Sorry, I do not quite understand what you mean by 'contingent property'.

Senator RONALDSON—Or a property right. A contingent form of property right.

Mr Tune—That vests to the individual who was—

Senator RONALDSON—Yes. If my staff are listening, which I hope they are, they might be able to get it up quickly while we are talking. My understanding is that that was the advice the Department of Finance gave Senator Conroy: that the question was asked by Senator Conroy, obviously in opposition at that stage, in the June 2002 estimates, and that the advice from the department confirmed the general position that frequent flyer points may be considered as a contingent form of property right of, as I say—which was the context in this case—the member and senator.

Mr Tune—Yes. I have not gone back to 2002, but what I have here is a note about a Remuneration Tribunal determination in 2006 which makes clear that airline loyalty points accrued at government expense should only be used to reduce the cost of future travel under entitlement by the person who accrued the points.

Senator RONALDSON—Yes.

Mr Tune—So they can use them, and that is about it.

Senator RONALDSON—Of course, My question is in the context of staff, not members and senators, but presumably the same rules will apply.

Senator Sherry—But doesn't your question go to the legal position of the ownership of the points as distinct from the Rem Tribunal's—

Senator RONALDSON—That is right, which is unrelated. That brings me to my next question. I gather that Henry Burmester provided advice to Finance on 21 August 2000 in relation to the ownership of frequent flyer points and I am wondering whether you have got new legal advice which is different to the Burmester view of this.

Ms Mason—Senator—

Senator RONALDSON—You are not meant to be here, Ms Mason. You are meant to be here tomorrow.

Ms Mason—I shall see you again then.

Senator RONALDSON—Ever vigilant!

Ms Mason—That is right.

Senator Sherry—They are all on call, waiting.

Senator RONALDSON—Ms Mason particularly. She is a marvellous officer.

Ms Mason—I am speaking from memory and I would like to check my facts but, as I recollect it, the airlines treat frequent flyer points as belonging to the traveller, regardless of who actually purchases the ticket for travel. In that sense the traveller, whether they be a senator, member of the public, MOP(S) Act employee or other person—

Senator RONALDSON—Can we talk about this in the context of staff because my question is specifically related to staff. Yes, I know they are one and the same, but if you can—

Ms Mason—The Commonwealth can set conditions on the use of the points. I would add that in the context of the new travel arrangements there is no plan to remove points that have already been accrued by travellers, and that also attaches to staff, but the new arrangements will be that because of the cheaper fares there will be no frequent flyer points accrued for travel at the cheaper rates that the Commonwealth has negotiated; so there is no ownership of something that does not exist.

Senator RONALDSON—In relation to the staff points, clearly there was a legal basis on which those points had remained with staff beforehand in light of the Burmester advice. I am wondering whether there is new advice which changes the status of those points in relation to the proprietary interest that—

Ms Mason—There is no new advice. The points that have already been accrued belong to the traveller and remain with the traveller, and the Commonwealth can set conditions on their use. For the new travel arrangements, no frequent flyer points will be accrued in respect of that travel, so there is no ownership because there are no points accruing.

Senator RONALDSON—That is pursuant to an agreement with the airlines, is it?

Mr Tune—That is right.

Mr Grant—That is part of the contract.

Senator RONALDSON—So in actual fact the way around this was to come to an arrangement where the Burmester and other opinions were not relevant because an arrangement was made. I am sort of thinking aloud here, but one would assume that the airlines had based their view of these points on the back of legal advice as well. I expect the answer is probably 'no', but was that discussed with you at all when you were negotiating the contract?

Mr Tune—I do not know what the motive of the airlines was, but I do know that they put quite a bit of store on the value of frequent flyer points, and it was a tough negotiating situation as we went through the negotiation of the contracts.

Senator RONALDSON—Mr Tune, can you take on notice whether there is any paperwork regarding any legal advice that the airline might have provided you that is not Commonwealth legal advice? If that is available, I would be interested.

Mr Tune—We do not think there is, but I will take it on notice and check.

Senator RONALDSON—Thank you. As I say, Minister, I am relating my comments to staff, not to members and senators, and I will then move to former members who are gold pass holders. This initiative will apply to staff similarly, I take it?

Ms Mason—That is correct.

Senator RONALDSON—That any travel from—

Ms Mason—From 1 July 2010 onwards.

Senator RONALDSON—Out of interest, Ms Mason, is this bookings made through HRG or is this any bookings at all?

Ms Mason—These are bookings made via travel management companies that are covered by the new arrangements and HRG is one of the members of the travel management company panel.

Senator RONALDSON—Can staff go outside those nominated providers and make bookings and claim back from the Commonwealth?

Ms Mason—No. We do require parliamentary travellers to book their travel via HRG.

Senator RONALDSON—So no-one can circumvent this by going outside the nominated list of—

Mr Tune—No, unless they pay for it themselves. If they pay for it privately, they can do what they like.

Senator JACINTA COLLINS—But they cannot be reimbursed.

Mr Tune—No.

Senator RONALDSON—I think that would be like the person who acts for themselves, Mr Tune. They would have a fool for a client, I think is the old saying, isn't it? I cannot imagine a scenario where that would occur.

Mr Tune—It is hard to imagine.

Senator RONALDSON—Thank you very much.

Senator JACINTA COLLINS—Sorry, Senator Ronaldson. I have just one supplementary question on that area. Would it be fair to say one of the changes that has occurred over the period of time since the early nineties is that the airlines do now offer as products, similar to what we have achieved in contract form, flights that do not attract points, just for general commercial travellers?

Mr Tune—I am not aware of it, but it could well be so.

Senator JACINTA COLLINS—I am aware of products where if you buy a cheap fare you do not attract points.

Mr Tune—Yes. I think personally I might have travelled on a red e-deal or something like that.

Senator JACINTA COLLINS—So now our commercial arrangements reflect that fact as well.

Mr Tune—That is probably right, yes.

Senator JACINTA COLLINS—Thank you.

Senator RONALDSON—Could I just have a quick look at that. You were actually there, Ms Mason.

Ms Mason—Yes, Senator.

Senator Sherry—Is that 2002 you are referring to, Senator Ronaldson?

Senator RONALDSON—A very young lady.

Senator Sherry—Some of us have been around for quite a few years.

Senator RONALDSON—You have not changed a bit, Ms Mason.

Ms Mason—You are too kind.

Senator RONALDSON—What is the anticipated scope of savings from this measure?

Mr Tune—Just for the parliamentary side?

Senator RONALDSON—No, across the board.

Mr Tune—It is \$160 million over four years.

Senator RONALDSON—How was that calculated?

Mr Tune—We were talking about this earlier, but I will get Mr Grant to run through it again.

Senator RONALDSON—My apologies.

Mr Grant—The savings were calculated by looking at approximately the top 40 departments' travel because we had, I suppose, a threshold where the savings were meaningful. We looked at the travel and the travel pattern for each of those agencies and, based on the lowest practical fare policy and the price difference that we were able to negotiate, we found savings on an agency by agency basis that totalled about \$31.1 million for FMA Act agencies and \$8.2 million for parliamentary travel.

Senator RONALDSON—Did you ask the departments for their dollar spend or did you ask them for their number of flights and then ask the airlines for a valuation of those flights?

Mr Grant—It was a mixture of both. We worked very closely with the departments because they are giving up savings upfront, so they were quite concerned that we had a good basis for our calculation. We also got information off the airlines and, at an agency by agency level, we ran, effectively, a model that explained the price change for each of the airfares and

we did it across various routes, reflecting their pattern of use of those routes. It was a very detailed process, where agencies actually signed off on the savings.

Senator RONALDSON—The trouble with pattern of use is that it does not actually reflect the dollar amount, does it, nominated by the airlines? The amount nominated by the airlines, of course, is the normal fare.

Mr Grant—No, it was actual fares. We know what each of the agencies was paying.

Senator RONALDSON—I thought you told me it was a mixture.

Mr Grant—It is a mixture, but we actually knew what they paid; we knew what routes they flew most often and infrequently; we knew what class of travel they used; we knew what range of ticketing they used, whether it was full-price economy or variations of full-price economy. Based on their pattern of use and the price they paid, keeping the same pattern of use to the change in price, we calculated the savings.

Senator RONALDSON—I quote from the *West Australian* in relation to access to frequent flyer points. This was from 1 July: ‘In return, airlines have agreed to cut the price for taxpayer funded air travel, which costs about \$500 million a year. The federal government said the travel budget was worth \$2 billion over four years but that is a gross figure which no government department pays, according to industry observers.’ Then there is a quote from an unnamed Sydney based airline analyst: ‘The government actually doesn’t know its travel spend and asked airlines to supply estimates based on normal fares, which no-one in the government pays anyway.’ It continues: ‘All government departments have travel contracts with big discounts just like all large corporations.’

Mr Grant—They are wrong.

Senator RONALDSON—And they are wrong because—

Mr Grant—We have the detail. We know more about our travel than they would have any idea of.

Mr Tune—This is one of the big success stories of this process. We have used the power of coordinated procurement here to get the information which has been sitting there in agencies which has not been utilised well enough and we have pulled that together and used our purchasing power to get big discounts.

Senator RONALDSON—What you are telling the committee, Mr Grant and Mr Tune, is that, while there has been a mixture of route and actual price, despite having the two bases—I am not misquoting you, am I?

Mr Tune—No.

Senator RONALDSON—Despite having route and actuals, you can still ascertain the actual savings?

Mr Tune—Yes.

Senator RONALDSON—Have all departments been on the same discount arrangement?

Mr Grant—No.

Mr Tune—That is one of the big issues here.

Senator RONALDSON—It is, but it is also one of the big issues if you are trying to ascertain an across the board route price. If they are all on the same discount, I can understand that you could readily ascertain the route price, but if they are not, how do you go about that?

Mr Grant—Perhaps I can explain. We did it for each agency. For each agency we understood the routes they used and the prices they paid. At the same time, we were negotiating with the airlines in relation to the price that we would pay, and there are a range of different approaches. One is a discount just off the normal fare; another is an actual route deal. So there are a range of different prices that we have arranged. For each agency, we took what their expenditure pattern and their travel pattern were and we put in the new prices that we had negotiated. That is how we came up with the savings.

Senator RONALDSON—On that basis you would have differential savings across different departments?

Mr Grant—Correct.

Senator RONALDSON—I presume there is no issue in tabling all that information.

Mr Grant—There is a big issue, because the prices that we are paying are highly confidential.

Senator JACINTA COLLINS—Mr Grant, does that mean that we will no longer see the price of fares in our management reports?

Mr Grant—I think you will see the price of fares. Senators and members do not have the lowest practical fare requirement but, for public servants, I think they will still see the individual fares, based on their business requirement and the price they paid.

Senator RONALDSON—Is there a differential in pricing for senators and members and—

Mr Grant—No, it is the same price.

Senator RONALDSON—Senator Collins's question is an interesting one. If it is secret, then isn't it very easy to ascertain from a collection of the data of members' and senators' travel—

Mr Grant—It is not published.

Senator RONALDSON—Surely those flights would be FOI-able. The travel cost would be FOI-able for each individual department, so I cannot see where the secrecy is.

Mr Grant—In terms of what you pay, of course it is not secret. In terms of the thousands of prices that we have across hundreds of routes, if you brought it all together it could be commercially quite problematic.

Senator RONALDSON—For whom, though?

Mr Grant—For the airlines, potentially. Part of what we have been trying to do is to ensure that we continue to have a viable industry.

Senator RONALDSON—With the greatest respect, the airlines are not sitting at this table but the department is, and this committee has responsibility for ascertaining the budget spend. Surely if there are claimed savings of \$160 million, and given this has been done on a

department by department basis, you can provide the committee with a departmental breakdown of savings.

Mr Grant—I have already taken on notice that I will provide it by departments.

Senator RONALDSON—What did you say you could not provide?

Mr Grant—Each individual fare for the various routes for every department.

Mr Tune—We are talking about a massive matrix.

Senator RONALDSON—I do not think I have asked for each individual flight, have I?

Mr Tune—Sorry, we misunderstood. That is what we thought you were asking.

Senator RONALDSON—I am an unpleasant character, Mr Tune, but I do not think I would be as unpleasant as that. Okay, we will have department by department.

Mr Grant—For the top approximately 40 departments.

Senator RONALDSON—When you provide that information, I will know what the departments are, of course. Were they the top 40 users?

Mr Grant—Yes. In fact, what we had was—I just cannot think of the word—basically a threshold for where it was sensible to take the savings, and above that threshold we took the savings. So there was an expenditure threshold. It was about \$1 million, but I cannot be exact on that.

Mr Tune—My recollection is that the top 40 covered over 90 per cent of full travel.

Senator RONALDSON—What is the saving from? What does the \$160 million take account of? What did it go from to?

Mr Tune—Approximately \$500,000 plus the—

Senator RONALDSON—So that \$500,000 is right that is quoted there?

Mr Tune—Yes. That was the Public Service, plus \$96,000-odd for parliamentarians, and we think we get \$160 million over four, so whatever that is.

Mr Grant—It begins at \$39.3 million and works its way up to a bit over \$40 million, based on inflators.

Senator RONALDSON—I am sorry, I do not understand.

Mr Grant—Basically, on average it is a \$40 million a year saving to budget.

Senator RONALDSON—Were those deals done with all airlines?

Mr Grant—Not all airlines. The list of airlines has been published.

Senator RONALDSON—I will rephrase that: were those deals done with all domestic airlines within Australia?

Mr Grant—Not the very small ones, but certainly Qantas, Virgin, Jetstar and Rex are in there. I do not think Tiger put in a bid.

CHAIR—Senator Cameron has a follow-up question.

Senator CAMERON—Mr Grant, I did ask the question about the additional \$350 million savings that the opposition are claiming they would achieve over the forward estimates for travel. It was indicated that the negotiations were pretty tough in relation to the \$160 million. Is that right?

Mr Grant—They were tough negotiations, yes.

Senator CAMERON—So \$160 million was a good deal in terms of the government's position?

Mr Grant—We think so, yes.

Senator CAMERON—Would it be possible to achieve another \$350 million on top of that with the airlines?

Mr Grant—I cannot answer that.

CHAIR—I want to clarify the record and correct it. I said that Minister Ludwig was not available tonight due to being in another estimates hearing. That is not correct. He is not available tonight because of other commitments.

Senator RYAN—This is probably not the place for it, Chair, but we did have that discussion in a private meeting and you can probably understand that I might have had a couple of questions about that. A minister being unavailable for another estimates hearing is different to a minister just being unavailable during estimates week.

CHAIR—I think you will find that in the meeting I said he was unavailable and gave the option of going, as I said, with Senator Sherry, who would take questions on notice. It was when I came in here that I said he was not available, which was incorrect.

Senator RYAN—I recall the discussion being about estimates. We might discuss that at our next private meeting.

Senator Sherry—It was my understanding that he had a commitment at estimates. I may have given that information to Senator Polley, so I should take the rap for that.

CHAIR—So the information that was given to me was incorrect. I have since had it clarified, so I have now, I hope, clarified it on the public record and corrected it. Senator Ryan, you have the call.

Senator RYAN—The government promised to pay moneys owed by the Commonwealth to small business within 30 days or to pay penalty interest, didn't it?

Mr Grant—Yes.

Senator RYAN—Why has this promise not been kept to people like small business insulation installers such as Balmoral Heating?

Mr Tune—I do not like saying this, but I think in this situation, Senator, you are probably best directing that question to the Department of Innovation, Industry, Science and Research. They monitor this payment regime and so they would know how the stats fall in general.

Senator RYAN—Do you monitor whether—

Mr Tune—No, we do not.

Senator RYAN—You do not monitor?

Mr Tune—Only for ourselves.

Senator RYAN—Only for yourselves?

Mr Tune—Yes.

Senator RYAN—In your financial reporting monitoring, would you pick up whether departments are paying penalty interest because they are not paying their bills on time? Is that something that you would pick up in other departments' financial misbehaviour?

Mr Tune—Probably not.

Dr Helgeby—Probably not.

Mr Grant—Perhaps I can clarify this. The ability to pay interest is there, but the business actually has to make the claim.

Senator RYAN—I think there are a few people in that industry making a lot of claims at the moment, Mr Grant.

Mr Grant—Yes.

Senator RYAN—Has the department of finance kept its promise to pay all bills to small business within 30 days?

Mr Tune—I had better take that on notice. My recollection is that, yes, we are one of the best performers. I do not think we are 100 per cent but we are pretty high up.

Senator RYAN—Could you also take this on notice then: where you have not paid bills within 30 days, have you been subject to any claims for penalty interest and, if those claims have been made, has penalty interest been paid?

Mr Tune—Certainly.

Senator RYAN—If you are having ongoing problems paying a bill, do you feel it is the department's obligation to inform the small business concerned of your obligation to pay them within 30 days?

Mr Tune—I will take that on notice and check our processes.

Senator RYAN—Thank you. In 2007 Mr Tanner announced a one-off additional two per cent increase in the efficiency dividend. Did that efficiency dividend apply to advertising expenditure, consultancies expenditure, non-defence related recruitment, opinion poll and market research spending and media monitoring undertaken by departments?

Mr Tune—I will double-check that.

Mr Nicol—Could you please repeat your question, Senator?

Senator RYAN—In November 2007 the now minister announced an additional one-off two per cent increase in the efficiency dividend. This additional increase in the efficiency dividend was to apply to advertising expenditure, expenditure on consultancies, non-defence related recruitment expenses, opinion poll and market research spending and media monitoring undertaken by departments. Did that occur?

Mr Nicol—The two per cent one-off efficiency dividend was applied to the same expenditure base that the ongoing efficiency dividend was applied to. So to that extent those expenses are met out of department budgets.

Senator RYAN—So it was applied to departmental budgets?

Mr Nicol—Essentially. There are some exceptions.

Senator RYAN—Yes, agreed, but there was no guarantee that it was applied to those bullet points that I read out. That was just the departments allocating their own resources.

Mr Nicol—That is correct.

Mr Martine—It is up to the departments themselves to decide how they meet that cost.

Senator RYAN—Thank you. In an answer to Senator Joyce—I think it was F18—at additional estimates in February this year, a savings list was provided to him. In that savings list there is, I think at the top of the second page, an item reducing the number of ministerial and opposition personal staff by 30 per cent—a saving of \$98.6 million. That was in 2008-09, I believe. Am I reading that correctly?

Mr Tune—I am trying to find the F18 that you mentioned.

Mr Martine—Sorry, what was the total saving against that item?

Senator RYAN—It was \$98.6 million. It is the first item in the table on the second page. It is a list provided to Senator Joyce of savings measures apparently undertaken by the government. I do not have a hard copy—we are getting one printed out.

Mr Tune—Thank you.

Mr Martine—Senator, did you have year-by-year numbers of 15.4—

Senator RYAN—I am afraid I have literally just got the answer, which is—

Mr Martine—You do not need to ask the question then.

Senator RYAN—I have a question about the answer! Am I reading that correctly? That is a savings listed as \$98.6 million over the years 2007-08 to 2010-11 by reducing the number of ministerial staff by 30 per cent.

Mr Tune—Correct.

Senator RYAN—It is listed there as being in 2008-09 or 2009-10 MYEFO. I think that was a 2008-09 announcement. I do not have that in front of me.

Mr Martine—I think it was the 2008-09 budget.

Senator RYAN—In the 2009-10 budget an additional \$34.2 million was provided to increase opposition and ministerial staff, I believe.

Mr Tune—Yes, following the Alan Henderson review.

Senator RYAN—That was a year ago. In February of this year, to provide an apparent saving, you actually outline a savings measure of which one-third of it has been unwound only a year later. How can \$98.6 million be listed as a saving when the following year the very same item was increased by \$34.2 million? Net you would only have \$64.4 million less being spent on the number of ministerial and opposition staff.

Mr Tune—We will have to check whether in fact we have netted it off somewhere.

Senator RYAN—Even if it has been offset somewhere else in the budget, Mr Tune, I would suggest that at the very least it would require a footnote explaining that, while it says a \$98.6 million saving has been made, the very same item number had a \$34 million increase the following year—so within the period that you have outlined the saving.

Mr Tune—I understand what you are saying. I think we just need to check it.

Senator RYAN—I would also ask you to check whether any other items on this savings list have similar issues, where adjustments have been made that would otherwise indicate that this answer provided only three months ago conveys a somewhat misleading impression upon the savings measure on that item.

Mr Tune—Yes, we will do that.

Senator RYAN—The budget papers reveal also, I understand, Mr Tune, that the Department of Finance and Deregulation will see an additional 33 staff in 2010-11.

Mr Tune—Yes.

Senator RYAN—Where will these roles be located?

Mr Tune—That is yet to be determined, but we did receive some additional funding for two reasonably major projects. One is to undertake a business case analysis with the department of infrastructure into the Moorebank intermodal terminal up in Sydney, which is a very major project, and the government has allocated us some money to undertake that particular business case development. That is quite an intensive job. We have been given quite a large amount of money for the staff associated with setting up that office to develop that business case.

The second one, in a similar vein, is that we have been given responsibility for refurbishing the Cocos Island runway, which is in a state of some disrepair, so Finance will be project managing that as well.

Senator RYAN—Presumably they are not extending the runway themselves?

Mr Tune—No. We do not actually do the work. We actually do the project management to make sure it is done efficiently and properly. There are a couple of other odds and sods, where we got additional money as well, but they are the two main ones.

Senator RYAN—Before I move to an issue that you may be required to direct me elsewhere on, what was the cost of moving the energy efficiency portfolio from Minister Garrett and the department of the environment to Ms Wong and the new department of CCCE, or whatever the new acronym is?

Mr Tune—That is an issue that is still under discussion. When the transfer occurred, the staff that were in DEWHA, if I can use the acronym, went across holus bolus.

Senator RYAN—DEWHA is Environment—

Mr Tune—Correct, the Department of the Environment, Water, Heritage and the Arts. When they went across to DCC, they went across holus bolus. With these transfers of responsibility, there is a process whereby the two departments try to work out what the

financial implications of that are—how much money needs to be transferred from one department to another department. In a situation where that can lead to disagreement, which it sometimes can, Finance sort of acts as a bit of a referee, to work it through. The principle on which these happen is at a zero net cost. So it is just dollars being transferred from A to B. There is no net additional cost involved in these things. That is the way we do it.

Senator RYAN—How long should we expect this to take?

Mr Tune—It can take a little while. We are keen to give it some priority now that the budget is out of the way.

Senator RYAN—How many days before the announcement was made public was the department of finance consulted about this change, given your obvious involvement?

Mr Tune—I do not think we were given notice, when I think about it.

Senator RYAN—So you have just been chasing up the announcement, effectively?

Mr Tune—No. It is the normal part and parcel of what happens. These things occur from time to time.

Senator RYAN—Finance is not normally consulted about administrative changes like this?

Mr Tune—No. Administrative arrangements are clearly the prerogative of the Prime Minister. The Prime Minister makes the announcements, and then everybody—

Senator RYAN—Are you saying that you are not normally consulted about this beforehand?

Mr Tune—We are not normally consulted, no.

Senator RYAN—So you see it on the wires, like everyone else, and then start work?

Mr Tune—Correct.

Senator RYAN—I have some questions which—

CHAIR—Senator Cameron has some as well.

Senator RYAN—I have got another issue to move on to completely, so I am happy to—

CHAIR—Senator Kroger first and then Senator Cameron.

Senator KROGER—I just want to follow up, Mr Tune, while you are here, on your responses to Senator Ronaldson, which were in relation to when the discussions with the airlines commenced. When did these negotiations commence?

Mr Tune—Quite a while ago. This contract negotiation has been going on for quite a period of time. Hopefully Mr Grant is still here and he can give you the full details. I think he is coming back in.

Senator KROGER—If you could advise when those discussions did commence and when they were signed off on, that would be very helpful.

Mr Tune—They were certainly signed off very recently. I co-signed them on behalf of the Commonwealth. I signed a very large number of documents around the time of the budget, so I know when it was finished, but I would need to check when it started.

Senator KROGER—Thanks, Mr Grant.

Mr Grant—Thank you. I do not have a specific date, even of when the tender actually went out.

Mr Tune—On 4 September 2009, tenders were released.

Senator KROGER—When you say ‘tenders were released’—

Mr Tune—We put the tender documents out into the public arena and asked for tenders. Tenders closed in October; evaluation was completed by the end of December 2009; contract negotiations and execution were completed by 7 May 2010.

Senator KROGER—Before those tenders went out, there were no informal discussions?

Mr Grant—Yes, there were. We undertook a scoping study beforehand to understand what we paid, who we flew with, and things like that. So approximately six or seven months before that we had commenced discussions with the airlines. The negotiations obviously came after the tenders were submitted.

Senator KROGER—So the scoping discussions, to put it in your term, would have commenced then early last year? We are talking about February last year—something like that?

Mr Grant—Yes, somewhere around there. I am trying to think of when it started. This was announced in about February last year and it began very soon after that.

Senator KROGER—Okay, thanks, Mr Grant. Thanks, Mr Tune.

Mr Grant—Madam Chair, I am sorry, but can I just make a correction to some advice I provided? I used, I think, forward estimate figures. The annual spend in relation to parliamentary, ministerial and staff is \$33.4 million per annum. I used \$96 million and I think that must have been a forward estimate.

Mr Tune—That was for 2008-09, I think, isn't it?

Mr Grant—That is right.

CHAIR—Thank you very much.

Senator CAMERON—Mr Tune, anyone listening may have had the impression that the government does not pay its bills. Do you have the statistics for payments made within that 30-day time frame from last year?

Mr Tune—I do not have them with me. I do not know if anybody else here does.

Mr Grant—The innovation department usually publishes it.

Mr Tune—Yes, we think it is the innovation department that publishes it. Do we have our own? I am just trying to check whether we have the department of finance figures, but it does not appear—

Senator CAMERON—The figures I have were from a response given by the Prime Minister to a written question from Mr Ciobo, and it shows that 96.5 per cent of bills are paid within three months. That is an improvement of one per cent from the previous year. Would that surprise you?

Mr Tune—No, not really. But I do not have the figures in front of me, so I cannot confirm that.

Senator CAMERON—Do you have any idea—you may not have any idea—of the private sector benchmark on this? Would you have any idea?

Mr Tune—I do not. I am sorry—no.

Senator CAMERON—I just thought I might ask. I am sure that a lot of people who talk to me would be happy if they had their bills paid within 30 days at that percentage in the private sector.

Mr Tune—I guess so.

Senator BRANDIS—Mr Tune, is that a relevant comparison? Surely the Australian government ought to be a best practice debtor.

CHAIR—Senator Brandis—

Mr Tune—This is not an area that we are involved in—I am sorry.

Senator BRANDIS—But what is the answer to my question?

Mr Tune—That is a department of innovation issue, not ours.

Senator Sherry—We will take it on notice.

Senator BRANDIS—Sorry, Senator Cameron. I just thought I would be helpful.

Senator CAMERON—Always happy to have your involvement.

Senator RYAN—Minister, can I just clarify this? With respect to the newspaper article I read out on potential letter writing from the department or the minister's office to BHP or other mining company shareholders, that is not happening?

Senator Sherry—From the minister's office, no.

Senator RYAN—The department?

Senator Sherry—No, nothing at all.

Senator RYAN—Could I just turn to a press release of the minister on 13 May headed 'Abbott's budget' and about various other things. It has a large graph on it. I am happy to table this, if it makes it easier.

Mr Tune—Please.

Senator RYAN—There is a graph on it that outlines—

CHAIR—I am sorry—I will have to go through the procedure.

Senator RYAN—I am happy to circulate it.

CHAIR—Does the committee wish to receive and table the document?

Senator CAMERON—Yes.

CHAIR—Thank you.

Senator RYAN—The question I have is: was the department of finance involved in the preparation of the document?

Mr Tune—I have one here for 13 May, but I had better make sure I have the right one. There is no graph on this one.

Senator CAMERON—Where is Barnaby? I thought he was your spokesperson on this. Have you given him the flick?

Senator BRANDIS—Senator Joyce is much in demand everywhere, Senator Cameron.

Senator CAMERON—He is much in demand—

Senator BRANDIS—Much in demand.

Mr Tune—The answer is: no, we were not involved.

Senator RYAN—In the preparation of the graph at all?

Mr Tune—No.

Senator RYAN—You have no knowledge of the numbers that might have gone into the preparation of that graph?

Mr Tune—I am assuming that the numbers came from the budget—at least the cabinet numbers.

Senator RYAN—There are allegations and assertions made there about opposition announcements—

Mr Tune—Yes.

Senator RYAN—which, as far as I know, are not in the budget. They might be soon, but—

Mr Tune—Yes, the black ones, which are the government's numbers, I assume are the budget numbers.

Senator RYAN—But have you had a role in costing—for lack of a better way of putting it—at the request of the minister, announcements by the opposition?

Mr Tune—In one instance we have been asked for a costing on an alternative policy scenario, if I can put it that way.

Senator RYAN—What was that alternative policy scenario?

Mr Tune—That was around the freeze on Public Service numbers and what the implications would be.

Senator RYAN—And that request for an alternative policy scenario came from the minister?

Mr Tune—The minister's office.

Senator RYAN—Was that request verbal or in writing?

Mr Nicol—It was via email.

Senator RYAN—Could you take on notice for us to have a copy of that email?

Senator Sherry—We will have to take that on notice.

Mr Tune—We will have to take that on notice, obviously.

Senator RYAN—Are you taking on notice consideration of providing that or taking on notice the provision of that? I appreciate you may not have it handy as we speak.

Senator Sherry—No—we will take on notice consideration.

Senator RYAN—Minister, inform me, with your longer experience in this place: as far as I am aware, such a document is not exempt from the request for information by estimates committees.

Senator Sherry—I would have to take that on notice.

Senator RYAN—Are you asserting a public interest immunity claim?

Senator Sherry—No, I am not asserting. I am taking it on notice.

Senator RYAN—You are taking on notice consideration. Taking on notice refers to—

Senator Sherry—I will take advice on the matter you are raising.

Senator RYAN—I suppose I cannot ask my next question until I get the answer to the first one.

Senator Sherry—I will try and get you an answer.

Senator RYAN—Thank you.

Senator CAMERON—Why don't you have Senator Joyce here? He is the shadow spokesperson. I am not sure where he is, but maybe he will be back with some questions as well.

Senator RYAN—I have now got an advantage—

Senator Sherry—Do you want your press release—just to cover that, the document you handed up—

Senator Sherry—They are making copies.

Mr Martine—They are taking a copy, yes.

CHAIR—We have not got those yet.

Senator RYAN—I have some questions, Chair, which I want to flag now, that relate to the budget treatment of the National Broadband Network, which relate to the nation-building funds, for obvious reasons, but they may relate to 1.1 as well. I am happy to ask them later on because there are specific questions about the nation-building funds as well. They are a single line of questioning that cannot really be—

CHAIR—Would you like to just flag the question and then we will see whether we can deal with it in outcome 1?

Senator Sherry—Are you suggesting that they may trip over to the Future Fund agency—

Senator RYAN—No.

Senator Sherry—the nation building.

Senator RYAN—Regarding 1.3—the nation building.

Mr Martine—Program 1.2. That is really management of the funds by the Future Fund Management Agency.

Senator RYAN—I have got some questions about the budget treatment of the National Broadband Network.

Mr Tune—Yes, that is certainly 1.1.

Mr Martine—That is 1.1.

Senator RYAN—Please correct me if my understanding here is inaccurate. The government announced its initial investment in the broadband network would be \$4.7 billion. Of the \$4.7 billion, \$250 million was allocated for the previously announced regional backbone program in the 2009-10 budget. Of the remaining \$4.45 billion, \$2.45 billion was raided from the Communications Fund. I would like to explore where the remaining \$2.3 billion balance of the government's equity contribution to the broadband network is coming from.

Mr Tune—I will ask the Financial Management people to come in and explain that.

CHAIR—I might take this opportunity to remind people that we are due to break at 3.45. Senator Ryan.

Senator RYAN—Yes.

Dr Feeney—What was specifically the question?

Senator RYAN—I outlined the amount of moneys that had currently gone into the National Broadband Network. Mr Quigley outlined to the Select Committee on the National Broadband Network in April this year that equity injections into the NBN until that point were in three phases: \$10 million, \$50 million and \$152 million. The government has stated that it will be making a \$4.7 billion contribution. The finance portfolio budget statement on page 53 in the estimates of fund balances indicates that \$2.06 billion has been allocated to the NBN from the Building Australia Fund in 2011 through the communications portfolio special account. I am reading that correctly?

Dr Feeney—That is correct.

Senator RYAN—Is that a straight equity injection into the National Broadband Network? Is that part of the \$4.7 billion?

Dr Feeney—Yes, it is.

Senator RYAN—So the NBN corporation can use that as it sees fit? It can use that, for example, to pay interest on the more significant borrowings it expects to undertake. Is that free equity for it to use as it sees fit?

Mr Tune—It is an equity injection into NBN to utilise for the purposes of building the broadband network, yes, and everything that entails.

Senator RYAN—That includes servicing debt it will otherwise acquire?

Mr Tune—Yes. At this point in time it has no private debt, of course.

Senator RYAN—No, but it has indicated that it will be taking on debt.

Mr Tune—It may do so over a period of time, yes. Probably not in the short term, though.

Senator RYAN—Do you have an indication of over what term it expects to take on debt?

Mr Tune—All we have at the moment is the implementation study, and the government is in the process of considering the implementation study and advice from NBN about the implementation study. The government is forming its own view about it. The implementation study talks about taking up debt over a period of four or five years, I think it might be, before it might be in a position to do that.

Dr Feeney—Can I clarify that \$2.06 billion?

Senator RYAN—Yes.

Dr Feeney—There are two components. One component is equity. The other component is the interest on the infrastructure bonds. So not all that is equity.

Senator RYAN—What component of that does represent the equity?

Dr Feeney—I am calling a Budget Group meeting.

Mr Weiss—Of that amount presented, \$8 million in 2010-11 is PDI interest.

Senator RYAN—Eight million dollars?

Mr Weiss—Yes.

Senator RYAN—I will go through the amounts allocated thus far. The government indicated an umbrella figure of \$4.7 billion, for lack of a better way of putting it: \$250 million was allocated for the previously announced regional backbone program and \$2.45 billion was taken from the Communications Fund, or am I double-counting there?

Dr Feeney—The money from the Communications Fund was put into the BAF and it is then fungible. It was not drawn from that.

Senator RYAN—So the \$2 billion from the BAF represents part of the money that came from the Communications Fund into the BAF.

Dr Feeney—That is right, and then there were other credits into the BAF.

Senator RYAN—Sorry?

Dr Feeney—There were other credits that came into the BAF that made up the funding.

Mr Tune—The Communications Fund stuff is not really relevant here. It is just the means of it going in and then coming out in a different way.

Senator RYAN—Mr Quigley outlined the three phases of equity injections into the NBN: \$10 million, \$50 million and \$152 million. We have this \$2.06 billion—or \$1.998 billion, I would imagine, if we take the \$8 million out that had come from the BAF—that had been allocated from the BAF. How much money has been put into the NBN to date by the government?

Mr Tune—By 30 June, \$312 million.

Senator RYAN—30 June, \$312 million?

Mr Tune—Yes. So \$260 million has been provided to date.

Senator RYAN—Yes.

Mr Tune—And \$52 million to be made some time this month; late this month, probably, or early next month.

Senator RYAN—So the \$2.06 billion allocated to the NBN from the BAF in the next financial year, how is that to be treated?

Mr Tune—That will be equity.

Senator RYAN—Is it a straight equity transfer in one—will it be a block transfer?

Mr Tune—Sorry. Will it be one tranche or will it be a number of tranches?

Senator RYAN—Yes.

Mr Tune—I do not think that has been determined yet. That would be based on the plan that is agreed between the government and NBN on the rollout and the timeliness that is needed around the injections.

Senator RYAN—This time next year, or by 30 June 2011, if I ask the same question, given the numbers you have just outlined to me and what is on this table, the contribution by the government will be the \$312 million that you have just mentioned?

Mr Tune—Yes.

Senator RYAN—And the \$2.06 billion out of this fund?

Mr Tune—Yes.

Senator RYAN—Have I missed any other contribution that is projected over the current—

Mr Tune—There is one other, which is \$300 million, which is projected to be raised from the issue of Aussie infrastructure bonds.

Senator RYAN—Thank you for reminding me. I will get to those in a second. That brings us to roughly \$2.66 billion of the \$4.7 billion umbrella figure—give or take, if I have added it up incorrectly. So there are another \$2 billion. Where is that going to come from?

Mr Tune—That also will be an equity injection.

Senator RYAN—Yes.

Mr Tune—Where it comes from is not yet determined.

Senator RYAN—But it will be borrowed in some shape or form?

Mr Martine—Essentially, it comes from the budget.

Senator RYAN—It will be a transfer from the budget's bottom line to the National Broadband Network?

Mr Martine—No. Equity injections do not impact the budget's bottom line.

Senator RYAN—I am sorry, you are quite right. It will come out of the budget but it will be an off-budget item?

Mr Martine—No.

Senator RYAN—All right. Take me through it.

Mr Martine—Essentially, the discussion around funds is a question of financing, so you have two separate concepts here. There is a financing question, and you can finance your spending or equity injections from cash you have got in the bank, or cash sitting in a fund, or through borrowings, and then there is a question of taking that cash and doing something with it, which might be government spending or it might be an equity injection.

In this particular case, as has been discussed, some of it is coming out of the BAF, which means that cash is sitting there in the Building Australia Fund. That is the \$2-odd billion we talked about. The rest of it will come from other financing sources. Everything is fungible, so it is all part of the budget, whether it is coming from debt that is raised progressively by the AOFM or cash that is sitting there at the Reserve Bank. It is all quite fungible. It is not specifically coming out of a designated fund.

Regardless of the financing question, the question of whether it impacts on the bottom line is really a question of whether it is an equity or a grant and, because it is equity, it does not matter whether it comes out of a BAF or anywhere else. It does not impact on the bottom line.

Senator RYAN—Whereas if it were a grant, it would be treated differently?

Mr Martine—That is right, yes. Even if it were coming out of the BAF, if it were a grant it would impact on the bottom line.

Senator RYAN—It is possible that further money could be drawn out of the BAF, isn't it?

Mr Tune—Yes, there are still balances in the BAF.

Senator RYAN—I know it is declining, but at the end of 2014 there is still just under \$1.8 billion in the BAF. It is possible the government could draw down that?

Mr Tune—It is possible, yes. It has a choice about where it draws the money from, yes.

Senator RYAN—This may be a simple question, Mr Martine, but if it does not come out of the BAF, in an era of deficit—and I agree it is all fungible—the government will just borrow the money to put into the NBN for the equity injection. Where is the interest cost for that borne? Is it borne on the budget or is it borne by the NBN?

Mr Martine—The interest costs of the government's equity injection?

Senator RYAN—Of the government borrowing a couple of billion dollars.

Mr Martine—That is all borne by the government. The public debt interest cost of all government borrowings is borne by the budget.

Senator RYAN—So if it were to be borrowed in, let's say, 2012 rather than taken out of BAF, then the interest costs for that remaining \$2.1-odd billion would be a budget cost?

Mr Martine—Yes, but you would then also lose the interest you would earn on the money sitting in the BAF, so the cost to the budget is actually the difference.

Senator RYAN—Yes, quite right. Thank you for that. Could I move to the bonds you mentioned. The amount to be raised by the infrastructure bonds is \$300 million. Is that correct?

Mr Tune—Yes, in 2010-11.

Senator CORMANN—How much overall?

CHAIR—Senator Cormann, are you seeking the call?

Senator CORMANN—No, it is just that you mentioned \$300 million in 2010-11. Can you confirm how much you intend to raise in Aussie infrastructure bonds for the purposes of the NBN overall?

Mr Tune—No, that has not been decided yet. I was referring to that earlier. All that is settled at the moment is the 2010-11 bond issuance under the name of ‘Aussie infrastructure bonds’.

Senator CORMANN—In terms of your overall figure of \$4.7 billion, the initial investment the government said they would make into the NBN, you have not got that completely financed then, have you?

Mr Tune—Sorry?

Senator CORMANN—The government made an announcement—

Mr Tune—No, this is the discussion we have just been going through: that there are choices that can be made about how you finance that.

Senator CORMANN—So you have not made those choices yet to the \$4.7 billion?

Mr Tune—No. That is correct.

Senator RYAN—Are these going to be separately identified?

Mr Tune—You probably need to go to the Treasury for this one or, indeed, the AOFM, because they are managing the issuance of the infrastructure bonds.

Senator RYAN—Do you know whether or not small investors will be allowed to participate?

Mr Tune—I do not know, I am sorry.

Senator RYAN—This is a relatively small amount—not only borrowings to fund the NBN but also a relatively small amount, less than 10 per cent, of the government’s equity injection into the NBN. Are you aware of any reasons as to why it is so small?

Mr Tune—No. Once again, you would have to ask AOFM. There may be technical reasons for that.

Senator RYAN—Are you aware of any consideration of announcing further AIBs for the NBN?

Mr Martine—It is a question for Treasury, but there is a reference on page 7-12, Budget Paper No. 1, that does say:

Consideration is currently being given to offerings of Aussie Infrastructure Bonds for household investors.

I am sure Treasury and the AOFM can elaborate on that.

Senator RYAN—That is all I have on that. Can I just go back to the issue Senator Sherry and I were discussing before I finish with this. I think that is all I had with respect to the budget treatment. Could you just bear with me a second.

CHAIR—You have not finished with outcome 1?

Senator RYAN—No. Can Senator Cormann take the call while I catch up?

CHAIR—Yes, that is fine. Can I just clarify with you, Senator Ryan, that on outcome 1.2 Senator Humphries still wants to come in and ask questions?

Senator RYAN—Yes. Just bear with me a second; I am trying to classify these into their appropriate outcome. I now want to go to the classification of this as ‘capital expenditure’ and explore that. I understand the budget papers provide that, for the reason we discussed earlier, I presume—the difference between equity and grant—the NBN is a public non-financial corporation for the purposes of government finance statistics.

Mr Tune—That is correct.

Senator RYAN—What criteria must be satisfied to be considered as such?

Mr Tune—As a PNFC?

Mr Martine—We have got the expert coming in, Senator.

Mr Youngberry—The definition of a public non-financial corporation is set by the Australian Bureau of Statistics in their GFS manual. I have not got a copy of the precise definition with me, so I will just give you the layperson’s version of it. It basically needs to be a non-general government sector entity, carrying out market based activities and charging economically significant prices for its services. If it meets those criteria, it will generally be classified as a PNFC entity and it should not be carrying out government policy funded from taxation, which basically means it needs to generate enough revenue to cover its operating costs.

Senator CORMANN—So you make an investment rather than a grant?

Mr Youngberry—Yes.

Senator RYAN—Who makes that determination?

Mr Youngberry—The ultimate determination is made by the Australian Bureau of Statistics, but we do work closely with them in terms of how the entity will be classified in the budget.

Senator RYAN—So the ABS determines how the NBN is classified?

Mr Youngberry—Yes, ultimately.

Senator CORMANN—I do not know that that is right, is it? Somebody has to make a judgment as to whether or not you expect an organisation like the NBN to cover the expenses that the government invests. So somebody has to make a judgment as to whether it is going to fall into the investment category or into the grants category. Who makes that judgment?

Mr Tune—That is a two-phase process. We provide professional accounting advice to the government about what we think, based on the criteria that Mr Youngberry has outlined there. But, at the end of the day, ownership of the GFS rests with the ABS. It is possible that the ABS could disagree with us. What Mr Youngberry is saying is that we work very closely with the ABS to try and get an indication up-front: do they agree with our interpretation or are they likely to disagree with it? On this occasion, they said they are likely to agree with it.

Senator CORMANN—What happens if ultimately there is no return which covers the government expenditure?

Mr Tune—Then there may be a change of classification, yes.

Senator CORMANN—So that can happen after the event?

Mr Tune—Yes.

Senator CORMANN—Ultimately there will be a classification where it no longer is considered as an investment; it ends up being considered—

Mr Tune—It is possible, yes. But we try to foresee that. We are trying to look ahead to see if we think this is a viable entity over a period of time.

Senator CORMANN—When would you be in a position where you would have to make that sort of judgement?

Mr Tune—When you make the judgement is a matter of judgement. You would want to see whether the business was mature—it had been in operation long enough to be in more or less a steady state—which could take quite some time, depending on the business that you are talking about.

Senator CORMANN—Everything really turns on the assumptions around the internal rate of return, whether you are able to meet revenue expectations around NBNC_o et cetera. If the revenue expectations and if the internal rate of return do not cover the cost of funds—

Mr Tune—Over a period of time.

Senator CORMANN—Over what period of time?

Mr Tune—That is the issue of judgement. What I am saying is that it would depend on—

Senator CORMANN—Like 20 years, five years?

Mr Tune—I could not tell you, quite frankly.

Senator CORMANN—Could it be 20 years?

Mr Tune—No, it would not be that long, I do not think.

Senator CORMANN—What, four years?

Mr Tune—No. Probably more like—

Mr Youngberry—There are two steps in the process. One is the classification of the entity, and then there is a classification of the transactions of the entity. Each time when the government contributes an equity investment, we would make a judgement around whether that contribution is likely to result in a return on that investment. If that is the case, we would classify it as an equity injection. If we thought that there would be no return on that, and it is in the nature of a grant, we would classify it as a grant.

Senator RYAN—So what have you relied on to make that assessment now?

Mr Youngberry—The information that is currently available from government.

Senator RYAN—The implementation study?

Mr Youngberry—We have not used the implementation study in terms of the numbers that have been discussed so far, but that has been based on the government plans and policies to date.

Senator RYAN—So you are basing the assessment as to whether this can achieve a rate of return necessary to be an investment and not a grant on the government's work but not external work? This is not a mature business which Mr Tune mentioned before.

Mr Tune—At this stage, that is what we have done, yes.

Senator CORMANN—The reason we are having the discussion is because we want to assess whether it is appropriate for this expense to be left off budget or whether it should be considered as part of the budget. You have made a judgement at this point in time that you assume there will be an appropriate return on investment, and that is why you can categorise it as an investment. How long are you going to leave government expenditure in that sort of category without actually having that return on investment eventuate?

Mr Martine—Just to clarify that: it is the ABS who ultimately make this judgement as to the two issues. The first issue is which sector the NBN is located in, and their judgement is that it is a public non-financial corporation.

Senator CORMANN—Understood.

Mr Martine—The second issue is, as Mr Youngberry indicated, that as each transaction comes up a judgement is made as to whether it is equity or grant. The judgement that the ABS has made is that, for both of those issues, yes, it is a non-financial corporation and also that the government's contribution is appropriately treated as equity.

Senator CORMANN—Mr Quigley, the CEO of NBNC_o, told us that so far the government has made \$260 million in equity injections. I think he is expecting a further injection which would take it up to \$310 million. That is right, is it?

Mr Martine—Yes, \$312 million by 30 June.

Senator CORMANN—So every time you make a further injection, you will have to make a judgement as to whether it should be treated as an investment, which means it is off budget, or whether it is a grant. Is that right?

[3.35 pm]

Mr Youngberry—It is. But we also, every year, as part of the annual financial statements process, review the value that all PNFCs that the government holds are held at and reported on in the balance sheet. We probably need to be careful with terms because you have used 'off budget' a couple of times. It is not off budget, it does not affect the underlying cash balance, as Mr Martine outlined earlier, but it is definitely included in the government's accounts.

Senator CORMANN—The \$4.7 billion which the government said they would make available as an initial investment is not yet included in the government accounts, is it?

Mr Martine—Yes, they are.

Mr Tune—Yes, they are.

Senator CORMANN—All of the \$4.7 billion?

Mr Tune—Yes.

Senator CORMANN—Okay, tell me where they are.

Mr Tune—We have been through that with Senator Ryan. The residual that we did not cover with Senator Ryan sits in the contingency reserve.

Mr Martine—They are included in the budget. They are balance sheet transactions, so they are investments and, as Mr Youngberry indicated, they do not therefore hit the budget bottom line. The other important point worth noting is the role then of the Audit Office in the end-of-year financial statements. They have a role of auditing the treatments which the government has undertaken for that particular financial year. If they formed a view in those statements that they believed that these equity contributions were not equity contributions, I am sure they would have something to say about that when signing-off the accounts.

Senator CORMANN—On a yearly basis?

Mr Martine—That is correct.

Senator RYAN—There is no capacity for ministerial directive in making those determinations, is there?

Mr Martine—No.

Senator RYAN—Do you have an estimate of the expected public debt interest costs across the estimates and projections period that are attributable to the coming equity investments in the NBN?

Mr Tune—We do, but I cannot disclose them. I think I mentioned that the remainder of the \$4.7 billion is covered off in the accounts. The government has also made provision in the accounts for additional equity injections ahead of its final consideration of the McKinsey implementation study and, in anticipation of that decision at some time in the not too distant future, it has made some provision in the accounts for that, including the PDI impact of those equity injections.

Senator RYAN—The PDI impact is not public yet?

Mr Tune—That is correct.

Senator RYAN—Could I ask why?

Mr Tune—Because it is the way that it has been presented. The government is still finalising what the equity injection might be as a result of its consideration of the implementation study.

Senator RYAN—You said you know what the PDI impact is.

Mr Tune—I do not know for sure. We have made a provision for it.

Mr Martine—There are a couple of points here. This comes back to one of the first pages that we spoke about earlier this morning, about the contingency reserve. You will notice on page 6-44 of Budget Paper No. 1 that provision has been made in the contingency reserve for future equity investments by the government. The wording is:

This is subject to the Government's final response to the implementation study and, accordingly, is not disclosed.

That does not impact on the bottom line, so it is not part of the \$16 billion that we talked about earlier.

Senator RYAN—It is already contained within the—

Mr Martine—Because it is equity, it is not part of that \$16 billion. That is the first point. The second point is—

Senator RYAN—Sorry, the PDI costs actually do impact on the budget bottom line.

Mr Martine—The PDI impacts on the bottom line. The way PDI works is that everything gets lumped in together and it is done on the total financing requirement of the budget. So it is not as if PDI is calculated for each component, but it is correct to say that future equity investments that are included in the contingency reserve would, by definition, have a PDI impact that would be flowing through.

Senator RYAN—But that is in the contingency already so, therefore, there is not going to be a further adjustment to the budget bottom line purely because we are going to see an announcement about it on its facts.

Mr Martine—No, that is factored in.

Mr Tune—Unless there is a change in what we put in there.

Senator RYAN—Unless there is a change, yes. So you have that estimate. I understand your reason. Thank you.

Senator CORMANN—The McKinsey implementation study puts the expected government capital investment in the NBN over the next four years at \$18.3 billion. That is correct, isn't it?

Mr Tune—Yes, I think that is right.

Senator CORMANN—Can we then assume that the interest costs across an \$18.3 billion investment projected by the implementation study would be in the order of six per cent per annum—about \$1.1 billion across the forward estimates?

Mr Tune—You could assume that if you wished, yes.

Senator CORMANN—So that would be a reasonable assumption?

Mr Tune—You need to know what the profile of the \$18 billion is.

Senator CORMANN—Can you help us by giving us some information about the profile of the \$18 billion?

Mr Tune—That is what I have just been through with Senator Ryan. We cannot do that.

Senator CORMANN—Six per cent is a reasonable rate to assume, isn't it?

Mr Tune—Yes, it is probably not a bad rate.

Mr Martine—Those calculations are done by Treasury, but it is generally around that.

Senator CORMANN—Thanks.

Senator RYAN—The reason you cannot outline those details to us is that the government has not made a decision yet.

Mr Tune—Correct.

Senator RYAN—So at a future estimates hearing, if a decision is made before that, you will be able to provide us with those details?

Mr Tune—Definitely, yes.

Senator CORMANN—It would have to go into the additional estimates documentation.

Mr Tune—That would get reflected in a MYEFO or, indeed, if there is no MYEFO before an election, in a PEFO.

Senator CORMANN—If the government were to make a decision on this before the election, you would have to make a judgment then, independent of government, given the Charter of Budget Honesty provisions, on including it in the budget update. That is right, isn't it?

Mr Tune—That is correct. Yes, I would. Under the act I am required to do that.

Mr Martine—It is important to remember, though, that it is already included.

Senator CORMANN—Some parts of it are included.

Mr Martine—The government has—

Senator CORMANN—The \$18.3 billion is not included.

Mr Martine—There is provision in the CR—contingency reserve—for future equity investments, which does have a PDI impact.

Senator CORMANN—Which is kept secret.

Mr Martine—As indicated in the budget papers, the government has said that, until it responds, this amount is not disclosed.

Senator CORMANN—But if the government made a decision before the election, would it remain in the contingency reserve?

Mr Martine—No. It would move out of the contingency reserve.

Senator CORMANN—That is my point. So it would then become more transparent.

Mr Martine—That is correct.

Senator CORMANN—You would have to report on it in your budget update.

Mr Martine—In terms of any budget impact, it would only be if the amount was different to what is currently in there.

Senator RYAN—Mr Quigley indicated that the NBN business case shows:

We will recover our yearly costs, including capital costs, within a few years after the end of construction period. That means we will be net income positive for that period.

The government has previously indicated that the construction period was eight years. If I take 'a few years' to mean three, which I do not think too many people would disagree with, that means that this would not be net income positive until at least 2020.

Mr Tune—I think what the implementation study says—and Mr Quigley is probably more au fait with it than I am—is that NBN would be cash-flow positive by year 6, it would be able

to erase commercial debt by year 6 and it would be able to start paying dividends by year 11. That is in the scenario without doing a deal with Telstra. I may stand corrected on that and I am happy to check that.

Senator RYAN—And I may stand corrected on what I said as well.

Mr Tune—That is my understanding of the implementation study.

Senator RYAN—This would have predated the implementation study.

Mr Tune—Okay.

Senator RYAN—This may seem like a simple question, but when the government is talking about its equity being repaid are we talking in nominal or real terms?

Mr Tune—Nominal. You can convert that to real if you want to. It is the actual dollars.

Senator RYAN—If I give you \$10 billion today and you give me \$10 billion in 15 years, or between years 8 and 15, you have got a pretty good deal, haven't you?

Mr Tune—Yes, but it depends on—

Senator RYAN—The net present value of \$10 billion in 10 years—

Mr Tune—But these are NPV, I think. Am I right?

Senator RYAN—Sorry, maybe I should have used different terminology. When I said 'nominal', I was referring to very simple terminology. Is the government getting the simple number of dollars it handed over to the NBN back or is it getting—

Mr Tune—I see.

Senator RYAN—the real effect of it back?

Mr Tune—No, I am sorry, I understand what you are saying. I would have to check that. I understand your question, but I do not know the answer.

Senator RYAN—I would be very interested then, in your answer to that question. If it were nominal in the way I have described it—that is, the same amount of dollars in today's terms—could you also then simply calculate what the net present value of the repayment of that equity would be, because that obviously would be a reasonable cost for parliament to consider.

Mr Tune—Yes.

Senator RYAN—That is all I have on this.

Proceedings suspended from 3.45 pm to 4.02 pm

CHAIR—Welcome back. Senator Cormann has the call.

Senator CORMANN—Thank you, Madam Chair. Mr Tune, does Finance factor in technology risks when assessing the risk attached to a government investment?

Mr Tune—It depends on what sort of analysis you are doing. In this one it is a financial analysis, so we have not factored in the technology risk, no.

Senator CORMANN—So you have not factored in the technology risk?

Mr Tune—No. Do you mean in terms of—

Senator CORMANN—In terms of assessing the viability of the government investment into the NBN. That is what I was asking. You have not?

Mr Tune—No.

Senator CORMANN—I will just refer to Minister Tanner's joint press release with Minister Conroy, releasing the implementation study. A comment is made in there which we have previously talked about:

The Government can expect a return on its equity investment sufficient to fully cover its cost of funds.

The implementation study also indicates that NBN cost of equity will be 15 to 25 per cent in year one and nine to 12 per cent in year nine. This is page 369 of the study. Does that mean that the department of finance is assuming that NBN Co. will achieve those rates of returns so that taxpayers will fully recover the investment made by the government?

Mr Tune—At the moment, as I said, there is provision being made in the CR for the associated PDI costs. The government is yet to make a decision. At that point, we will come to a final view on what we think are the right numbers.

Senator CORMANN—When you say what the appropriate figures are, what you are saying is that the government has not yet made a decision on what the appropriate rates of returns are going to be so that the government does recover fully the cost of its investment.

Mr Tune—No. There is work going on analysing the implementation study at this point in time and that will lead to further government consideration, where I am assuming—and I may be wrong—the government will make a decision on how it wants to proceed. At that point, we would take account of all of the analyses in the implementation study and our own analysis of that and put all of that together. At that point, we would be putting that information in front of the government.

Senator CORMANN—When we talked earlier about the decision you had to make as to whether it was an investment or a grant, you said that you took information that was out there into account.

Mr Tune—At this point in time, that is what we have done, yes.

Senator CORMANN—Which would include the implementation studies?

Mr Tune—That is correct, yes. At this point in time, a lot of what we are doing is based on what is in the implementation study and the government's previous announcements.

Senator CORMANN—So, in making that judgment and in making that assessment, there are couple of key figures in the implementation study. One is an assumed internal rate of return of about 6.3 per cent, ranging between 3.8 and eight-point-something per cent, from memory.

Mr Tune—Yes, changing over time.

Senator CORMANN—That is right. There is also a further statement that the cost of funds, as I have mentioned, is assumed to be 25 per cent in year one and nine to 12 per cent in year nine. How can you reconcile those figures with an internal rate of return which is manifestly lower than the cost of funds, which is raised in that same implementation study?

Mr Tune—The NBN is being built up over a period of time. This goes back to this issue I was talking about prior to the break. You have to look at this as a mature investment; you just cannot pick it up at a point in time.

Senator CORMANN—Sure.

Mr Tune—It is a bit like constructing a building. The cost of your funds in the building phase is much higher than your rate of return—in fact, it is zero when you are building—but you are still paying interest on the cost of your funds. So you do not analyse it just at a point in time.

Senator CORMANN—No.

Mr Tune—You have to analyse it over the term of the investment.

Senator CORMANN—Mr Tune, I completely understand and concede that. I would be interested to understand what time frame you are looking at there. Earlier the comment was made that it would be cash flow positive within six or seven years.

Mr Tune—Yes, something like that.

Senator CORMANN—Given the sort of cost of funds we are talking about—nine to 12 per cent at that point in time—how are you going to have it cash flow positive unless you have a rate of return that is at least equivalent to that nine to 12 per cent?

Mr Tune—Sorry, I do not quite follow you.

Senator CORMANN—The cost of your investment, according to the implementation study, by year nine is between nine and 12 per cent. You would then have to have a return that at least is equivalent in order to cover your costs, wouldn't you?

Mr Tune—Yes. So you are covering your costs after about year six.

Senator CORMANN—But how are you going to do that with an internal rate of return of 6.3 per cent?

Mr Tune—That is over a period of time.

Senator CORMANN—It is over a period of time—and maybe Mr Martine can assist us here—but after 10 years your cost of funds is still up at nine to 12 per cent.

Mr Tune—Yes.

Senator CORMANN—So how do you cover that cost in the first 10 years?

Mr Tune—I would have to go back and look at the implementation study.

Senator CORMANN—Talking to Mr Quigley and the department of broadband and communications about this yesterday, my impression was—and I would be interested in your perspective because you are the expert department—that I was being: 'We've got access to a lower cost of funds. These returns of nine to 12 per cent and 15 to 25 per cent would be the cost of funds if you wanted to attract private investors.' Does that ring a bell?

Mr Tune—Yes, it does, and that is the reason why the implementation study says that for a period of time you should not be attracting private equity. But, because government has a lower cost of funds than the private sector, it makes it more feasible.

Senator CORMANN—I have a whole series of questions now. So your whole assessment of commercial viability of a sufficient return to cover the equity investment and cost of funds is based on the fact that the government can get access to funds at a lower cost than an equivalent operator in the private sector.

Mr Tune—No. It is one factor in it, obviously, but it is not the only factor.

Senator CORMANN—What are the other factors?

Mr Tune—What revenue you can raise from the investment you have made.

Senator CORMANN—Where would the difference be there between this being an entirely publicly funded—

Mr Tune—All I am saying is that, when you work out whether it is viable or not, you do not just look at the costs side, you look at the revenue side.

Senator CORMANN—If this was entirely privately initiated as opposed to entirely publicly initiated—which it will be in the start-up phase—would there be a tangible difference on the revenue side or a tangible difference on the costs side?

Mr Tune—Probably more on the cost side, I agree.

Senator CORMANN—This is my point. The reason, then, why you are able to make this assertion of commercial viability, and being able to recover the cost of funds, is based on the fact that as a government you are able to access funds at a lower cost than an equivalent provider or an equivalent business in the private sector. Is that right?

Mr Tune—Yes. By doing that you can generate a social return as well as the financial return.

Senator CORMANN—Sure. So the argument, I assume, would go by the government, but how does that fit with the competitive neutrality principles?

Mr Tune—I do not know. I do not think there is a conflict, but I will take that on notice and check that for you, Senator.

Senator CORMANN—The reason I am asking is because, as I understand it, the department of finance plays an advisory role in respect of agencies' implementation of competitive neutrality principles.

Mr Tune—It does, yes.

Senator CORMANN—Correct me if I am wrong but, as I understand it, competitive neutrality, or the principle that government businesses should not enjoy any net competitive advantage simply as a result of their public sector ownership, is a key component of the Competition Principles Agreement and, as a result, the government should not be giving government business enterprises an unfair advantage over their private sector competitors. Is that right?

Mr Tune—Yes. Basically, under the government competitive neutrality guidelines for managers, the rate of return should over time—and this is probably the important thing—be at least equal to the long-term Commonwealth bond rate.

Senator CORMANN—Have you got a working definition of what 'over time' means?

Mr Tune—That is this issue we have been debating backwards and forwards about. Until the government comes to a final view on the way it wants to implement this, the time is a bit hard to determine.

Senator CORMANN—But this is quite critical. In terms of the principles of competitive neutrality, if indeed the government is still committed to abiding by them, surely you have to have some reasonable expectation as to what ‘over time’ would mean in this sort of context?

Mr Tune—Yes, and I was talking before the afternoon tea break about ‘once the investment gets to a mature state’. That is probably a reasonable way of thinking about it, and providing a little bit of time for that maturity to take hold.

Senator CORMANN—Is the department aware of recent commentary by Paul Kerin, a professorial fellow at the Melbourne Business School?

Mr Tune—Yes, we are.

Senator CORMANN—Are you aware of what he has said about the implementation report and how it appears to use the government bond rate as the discount rate against which the project’s internal rate of return is evaluated?

Mr Tune—Yes.

Senator CORMANN—What are your comments on his views?

Mr Tune—I think Professor Kerin was referring mainly to cost-benefit analyses and, as you know, NBN has not been subject to a cost-benefit analysis. That is not what the implementation study did. We do not think there is an issue there. We did not set out to work out an NPV or a cost-benefit analysis of the NBN and nor did the implementation study. There is a handbook on cost-benefit analysis that is put out by the department of finance and it does not prescribe a benchmark real social opportunity cost to capital discount rate. In fact, it says that it is likely to vary from year to year and should be under continuous review. It is not prescriptive about a project’s specific discount rate, as I said, because that will vary from year to year.

Senator CORMANN—I am interested in particular in the way the finance department has evaluated the project. I am interested to hear that you say again that the way you get around to it, essentially, is by not having a cost-benefit analysis of the project, which is interesting. With your indulgence, I will read a quote from Professor Kerin:

... the standard advice on discount rates provided by various government agencies—the Finance Department, Infrastructure Australia, the Office of Best-Practice Regulation and the Productivity Commission—warn against it—

using the bond rate in this way—

as does the public economics literature.

No mention is made of that standard advice, nor the literature, in the study’s 546 pages. It completely disregards the government’s own financial evaluation requirements. Does Finance agree with that view?

Mr Tune—As I said, we think that applies to a cost-benefit analysis and a cost-benefit analysis was not done. That is no secret. We have not done a formal evaluation of the

implementation study. We are in the process of looking at the implementation study as a lead-in to providing advice to the government.

Senator CORMANN—Will you eventually do a cost-benefit analysis?

Mr Tune—No.

Senator CORMANN—So there will never be a cost-benefit analysis?

Mr Tune—No. That has been known for well over a year.

Senator CORMANN—That is the justification for why you can exempt the NBN from standard financial evaluation requirements? What you have just said is the reason for that?

Mr Tune—We think that, in this situation, that rate is an appropriate one, yes.

Senator CORMANN—In terms of concluding this argument—you have already answered it—when the government says that the return is going to be sufficient to cover the cost of funds, it is because the government has got access to a comparatively lower cost of funds?

Mr Tune—Yes.

CHAIR—Are there any more questions on outcome 1?

Senator RYAN—Yes, the last issue I have on outcome 1. I would like to go to the issue we discussed before, Senator Sherry, about requests of the department of finance to cost what you called alternative policy or alternative scenarios. Mr Tune, you said you had been asked to cost and assess the impact of the public service freeze and Senator Sherry was taking on notice whether or not we would get a copy of the request for that to be done. I would also like to know the date that request was made and I would like to see a copy of the advice. It is not a cabinet document. Will you be taking that on notice, too, Senator Sherry?

Senator Sherry—Yes. I think we had already indicated that.

Senator RYAN—I did not think I had been specific enough about the actual advice as well. Have you been asked to cost any alternative policies, Mr Tune?

Mr Tune—No.

Senator RYAN—You have not been asked to cost any other announcements by the opposition?

Mr Tune—Not to my knowledge. I will check with my colleagues, but I do not think we have.

Mr Nicol—That is correct, Senator. We have not been asked to cost any alternative policies.

Senator RYAN—And ‘costs’ would include ‘assessment’? I do not want to be caught out here by being too precise with my language.

Mr Martine—Yes, that is correct. Assessment or costing.

Senator RYAN—Requests for assessment or costing. Thank you. That is all I have for item 1.1, Chair.

CHAIR—Can I conclude, then, that you have finished with outcome 1? We are now going to call the Future Fund Management Agency and then we will go back to program 1.2, Public sector superannuation, and we will come in with ComSuper and deal with that at that time.

[4.18 pm]

CHAIR—I would like to welcome Mr Paul Costello, General Manager, Future Fund Management Agency, and any other officers that are called to the table. Mr Costello, would you like to make an opening statement?

Mr Costello—No, Chair.

Senator RYAN—I think we have a standard set of questions I go through at most estimates. Feel free to correct me if I miss one. What is the Future Fund's current holding in Telstra shares?

Mr Costello—Nothing has changed since the last time. It still owns 10.9 per cent of the company.

Senator RYAN—For a while there you had a period of voluntary, after your last sell-down. That expired in February, was it, or March?

Mr Costello—That is correct. In February.

Senator RYAN—So you are now free to undertake any market behaviour that you choose to?

Mr Costello—That is correct.

Senator RYAN—I am not going to ask about anything else with respect to that. What has happened to the value of your Telstra shares since we last met?

Mr Costello—They have declined further. I cannot recall when we last met. Telstra shares dropped seven per cent in the March quarter, but for the financial year to date—so since June—around two per cent through to March. Obviously they have been impacted by the broader slump hitting the Australian share market, although, it is interesting to note, not as much as many other securities.

Senator CAMERON—Sorry, not as much as?

Mr Costello—Not as much as the broader market.

Senator RYAN—Which is a bit volatile at the moment.

Mr Costello—It is extremely volatile at the moment.

Senator RYAN—So what has that meant in terms of the funds holding? What is the dollar figure for that over the last quarter?

Mr Costello—I could take you to the quarterly announcement.

Senator RYAN—It is on the back of the envelope. Sorry, I just do not have your report handy, which I normally would endeavour to have.

Mr Costello—I just do not know if I have it with me, but let me check. It was just under \$4 billion at the end of the quarter. It will be a little less than that now. It would have been seven per cent higher at the start of the year.

Senator RYAN—So we would be looking at just over a quarter of a billion?

Mr Costello—Yes.

Senator RYAN—Yes. Last time—and the time before, I believe—we discussed the impact of the government's policies—

Mr Costello—We did.

Senator RYAN—upon the Telstra share price. You indicated a reluctance at that point—because the government had not reached a conclusion and it was early in the process, I believe was a phrase you used or something similar to it—to make a comment on the impact of regulatory change upon the value of the Telstra holding.

Mr Costello—I would not describe it in that way. I recall the questions being really around the range of outcomes. There was quite a lot of comment in the marketplace about the range of positions that the government may settle on, and there was some speculation about what the impact of that would be on the share price of the company.

My comments were really that it seemed premature, to say the least—and perhaps even unwise—to be speculating about what might happen, and we had consistently noted that all shareholders of Telstra were extremely interested to see where this settled. We did talk about the fact that we were trying to imagine a range of scenarios and see how the company's price might be affected relative to where it was at that moment.

I think it was less a reluctance to comment. It was more a reluctance to be drawn into a discussion about what might happen and then what the impact might be. I am afraid we are still in the situation, aren't we, where we are not entirely sure, although we must be getting closer to a time when some announcement of the outcome of the ongoing discussions between Telstra and the government will be announced.

Senator RYAN—Mr Costello, we are now quite a significant time from when we first started to have this conversation.

Mr Costello—We are.

Senator RYAN—You were reluctant to make assessments public—or public comments—earlier in that process. Are you saying now that you, as the general manager of the Future Fund, have no views upon the impact of various scenarios of regulatory change upon the value of a very significant shareholding on behalf of the Australian taxpayer?

Mr Costello—No, that is not what I am saying. What I am saying is that quite what the outcome will be none of us knows. What I would say, though, is buyers or potential buyers of Telstra, in our opinion, as a result of the work we have done have marked the price of Telstra shares down to a level where there would appear to be limited further downside risk based around the uncertainty of where this outcome might go.

Senator RYAN—So the damage has been done?

Mr Costello—Certainly the market price would seem to be factoring in a lot of potential outcomes. Quite what the exact outcome will be, of course, I do not know and you do not know and nobody knows. But, certainly, as we think about the range of potential outcomes

which could be to various degrees good or bad for Telstra, it would appear that a lot of the potentially bad scenarios are currently priced into the share price.

Senator RYAN—That is a nice way of saying that the damage to the price has been done by the speculation.

Senator CAMERON—No, it is not.

Mr Costello—I would prefer to use the words I used before: the uncertainty around what the outcome for Telstra will be has been well discussed. There has been a lot written about it and, as a result, I think the share price has been marked down very sharply, reflecting that uncertainty and, potentially, an outcome for Telstra which may significantly impact on its commercial operations.

Senator RYAN—So the ongoing uncertainty is damaging the Telstra price?

Mr Costello—I think that is an uncontroversial statement so, yes, I would agree with that statement.

Senator RYAN—What are the other downside risks? You said that some, you think, have already been priced in. What other downside risks are you considering with respect to your Telstra shareholding now that you are free to be involved in the market and get some more—

Mr Costello—As you would appreciate, the Future Fund's mandated position to reduce its Telstra shareholding over time makes every comment and every observation we make, or are deemed to have made, extraordinarily sensitive to the market. So I have to try and balance my obligations to you to answer questions honestly with an obligation to the broader market—and you will appreciate we also have a legislative obligation to not unsettle the local market.

I am trying to balance that there. Perhaps I would reaffirm my view that there are a great number of scenarios that are publicly discussed as to where this could end and, in our opinion, are already priced into the share price. There would not appear to be, short of something which is not a mainstream outcome as currently discussed—

Senator CAMERON—Barnaby, here you are!

Mr Costello—There would appear to be very few scenarios which would take it lower. There is still legislation to pass, which I appreciate you are familiar with. There is still a price to be determined between the company and NBN. There is a lot of water to go under the bridge.

Senator RYAN—That is assuming that there is a price.

Mr Costello—That is assuming that there is a price. Then of course we think about what would happen if there was no deal and what that would mean. But, again, there are a number of moving parts, so I would reiterate my point that we think a lot of that has been priced in and, like all shareholders, we look forward to some clarity around the outcome here, and we think that under most costs that is likely to have a positive impact on the share price. We do not know that for sure.

Senator RYAN—It does depend on the outcome of course.

Mr Costello—Of course, which I think is the point I have been trying to consistently make; that it is difficult and, in my opinion, unwise for us as the largest shareholder to be speculating on what that outcome might be and, therefore, what the impact might be.

Senator RYAN—But the sooner an outcome the better, from a share price point of view

Mr Costello—I think that all Telstra shareholders would say the sooner an outcome the better.

Senator RYAN—I think we met in February.

Mr Costello—You are right.

Senator RYAN—Has the Future Fund undertaken any purchases of Commonwealth government securities since then?

Mr Costello—That is one of the questions we discussed, and perhaps I will reiterate the same answer. The Future Fund itself, of course, under the way it is set up, would never undertake these purchases in its own name or in its own right. We only work through external managers. We only have one manager that is part of managing the nation building fund portfolio. In the Future Fund there is no Commonwealth or state paper at all. The nation building fund, as you would be aware, is a much different investment mandate. It is essentially a cash-plus mandate or a bank-bills-plus mandate, so there is between three and five per cent of the value of those funds—which is approximately the same percentage as it was when we last met—held in a combination of Commonwealth and state paper.

Senator RYAN—The reason I was asking is that, given the markets, Mr Costello, some people have indicated that, in an era of rising interest rates, a government bond rate may be better than the rate of market return.

Mr Costello—I think that is right. Certainly we would see that the low-risk nature of the nation building fund mandate would provide consistency and in fact avoid the volatility that we talked about before, which the Future Fund is exposed to.

Senator RYAN—And there has been no change to the mandate, has there?

Mr Costello—For none of the funds.

Senator JOYCE—First of all, how much in the Future Fund is currently accounted towards net debt?

Mr Costello—That is a question perhaps best answered by my colleagues.

Senator Sherry—Finance will explain the accounting treatment and its inclusion in the net debt.

Mr Costello—I am bound to be corrected on this, but as a general principle my understanding is that only essentially the cash components of the Future Fund would count towards net debt. I think the total assets of the Future Fund would count towards net worth. But the distinction between the two perhaps is best left to—

Senator JOYCE—What have we currently got in the Future Fund—\$65 billion odd?

Mr Costello—Approximately, and a little over 10 per cent of that is in cash.

Senator JOYCE—Are you building up the cash reserves at the moment, or reducing them?

Mr Costello—As a general statement, reducing them, which is what we have been doing since day one when the program was 100 per cent cash. Right now we value our cash wholly, so tactically, if we can, we are for the time being holding onto cash receipts and considering the extent to which there are buying opportunities coming our way. At the moment I think to say we are building them up would be overstating it. We have been reducing them consistently through time, but they are fairly stable at these levels.

Senator JOYCE—Are you having any luck with net debt question?

Senator Sherry—We were going on to public sector super after this, so I think there was an anticipation that that would not be needed for a little while.

Senator JOYCE—I will go on to another area.

CHAIR—That was the agreement that we had: we would be dealing with the Future Fund and then going back to the agenda.

Senator Sherry—The question Senator Joyce has referred to would come under 1.1, Budget.

CHAIR—We have finished with 1.1, so we are now dealing with the Future Fund.

Senator JOYCE—As a separate entity.

CHAIR—Separate.

Senator Sherry—But Mr Tune will be back and I am more than happy—

CHAIR—Here he is.

Senator Sherry—He is back. Fantastic!

CHAIR—But, Senator Joyce, we have finished with outcome 1. We are now dealing with the Future Fund Management Agency.

Senator JOYCE—Yes, okay. We will just see if we can get an answer.

CHAIR—We are on 1.1. We still have to go to outcome 2.

Senator JOYCE—Mr Tune, how much of the Future Fund goes towards the accounting of net debt?

Mr Tune—I would have to think about that, I am sorry. The Future Fund is run as a separate agency. Can I take that on notice? I do not want to hazard a guess, quite frankly.

Senator JOYCE—It is cash reserves though, generally, isn't it?

Mr Tune—The fund itself?

Senator JOYCE—Yes.

Mr Tune—Yes.

Senator JOYCE—It is cash reserves in the fund that go towards the calculation of net debt?

Mr Tune—The calculation of net debt is actually a Treasury issue rather than us. We do not calculate the net debt numbers that go into the budget papers. Treasury does that.

Senator JOYCE—How much have you got in cash reserves?

Mr Costello—I know we are backwards and forwards here, but perhaps while that is being done: as at 31 March, which was our last quarterly update, the cash holdings in the Future Fund were just over \$10 billion, so they were a little higher than they are now. That may or may not be relevant to the answer to the question, but I suspect it is.

Senator JOYCE—While you are looking, could I ask you some other questions. These questions are about the Building Australia Fund. What is the value of the Building Australia Fund at the moment?

Mr Costello—At 31 March—again, they are the quarterly updates—the Building Australia Fund was \$10.1 billion.

Senator JOYCE—How is that money held?

Mr Costello—We were discussing the mandate before. We are under a mandate to deliver a positive return with minimal chance of capital loss, so most of it is invested in very low risk securities. Some is held in cash, and certainly the amounts that we are advised are likely to be drawn from the fund over the next six to 12 months we hold in cash.

Senator JOYCE—How much is held in cash?

Mr Costello—Around 40 per cent of that would be held in cash and the balance would be held in relatively low risk, short-term fixed interest securities.

Senator JOYCE—About \$4 billion is held in cash?

Mr Costello—In the Building Australia Fund.

Senator JOYCE—What other major funds are holding cash?

Mr Costello—We manage four funds: the Future Fund, which we discussed; the Building Australia Fund; and the two smaller nation-building funds, one of which is the Education Investment Fund, which at March was just under \$6 billion. The approximate proportion of cash versus fixed interest securities I think would be around the same—40 per cent.

Senator JOYCE—Is that Education Investment Fund the same as the education endowment fund?

Mr Costello—No.

Mr Tune—The Higher Education Endowment Fund was rolled into the Education Investment Fund.

Senator JOYCE—How much of the \$6 billion is held in cash?

Mr Costello—Approximately 40 per cent.

Senator JOYCE—So \$2.4 billion?

Mr Costello—Roughly.

Senator JOYCE—What is the fourth fund?

Mr Costello—The fourth fund is the Health and Hospitals Fund: just under \$5 billion at 31 March.

Senator JOYCE—How much of that is in cash?

Mr Costello—I would use the same estimate of about 40 per cent being held in cash versus fixed interest securities.

Senator JOYCE—Two billion dollars. My understanding is that only \$705 million of the Building Australia Fund remains unallocated to specific projects. Given that there is a fair amount to be drawn down, how is the Future Fund managing the future liquidity demands that will be placed on this fund?

Mr Costello—This is a point I made before. We clearly look for the best guidance we are able to receive on exactly when money will be drawn. Our aim is to make sure that, if we know that money is going to be drawn, we like to work on a six-month time frame and we hold that in cash, which goes to the point about liquidity. If we know that money is being drawn further out, we manage that further out. This is a balance, because often it is quite late in the cycle that money is called and we are obliged to try and maximise the return.

Our general position is that, where we know that we have money called within the next six to 12 months, particularly within the next six, we would hold it in cash. As it goes further out, we try and produce additional return. Again, the department could help, but I think that the period of time over which this other money will be called does stretch out a number of years and therefore we do not hold that in cash today.

Senator JOYCE—That is all I need to know. Thank you very much.

CHAIR—Senator Ryan, any further questions on the Future Fund?

Senator RYAN—No.

Senator KROGER—I have one.

CHAIR—Senator Kroger.

Senator KROGER—I noticed in your March quarter results, Mr Costello, that you have indicated you are moving a lot of funds out of global shares and debt securities. Is that right?

Mr Costello—I think the answer to that is yes and no. The brief history of the fund is that we are just coming up now to three years of investing this money since the organisation was born. Originally we held, really, a combination of cash and listed equities. It was the best way of trying to generate the return but balance the risk. We are reducing the equity holding, which was held to some extent as a proxy for a number of other things that we intended to buy in the future.

As our programs have come on stream, we are winding down some of the equity holding. That is the 'yes' part. We are reducing it. The 'no' part is that this will remain a very important and significant component of the program, so there is no hugely significant shift in our position. I do not know if that helped or not. I appreciate that may have been complicated. I apologise if it was.

Senator KROGER—Are you planning any further shifts, given the financial crisis that Greece is currently experiencing?

Mr Costello—We have been concerned about the events which have coalesced and arrived in a very significant way in a very short period of time, so we have been trying to de-risk the program, whilst not giving up our obligation to try and achieve a return on it. We have been both changing the composition of what we hold, to make it less exposed to these sorts of risks, and managing and rotating within programs to try and avoid exposures to these sorts of systemic risks.

Where we have been able to do it, we have been trying to insure our program against these kinds of outcomes, against drops in outcomes. So, while the headline numbers often do not look that different, the complexion of what we hold is increasingly, we think, a more efficient risk taking, and that reflects the maturing of our organisation. We are increasingly trying to generate the returns we are obliged to take more efficiently, which means with less risk. That means a wider mix of assets and it means removing some of the exposures which very broad market based equity holdings would provide.

As you might appreciate, investors, as they begin these rather more sophisticated techniques, often use very broad market benchmarks as an opening position and then gradually wind back from that. We have been for quite some time in that process, so that is perhaps the best answer I can give there. We are continually doing that and we are extremely focused at the moment on the best way to handle this. We are clearly impacted by it—less so than many investors who have larger exposures to global equity markets than we do and perhaps more broad based than we do. But it would be incorrect to say that we do not feel this, along with all other investors.

Senator KROGER—Would it be reasonable to presume then that you would be putting more equity in property or infrastructure portfolios?

Mr Costello—That has always been the plan. We have always indicated that would be a significant part of the program.

Senator KROGER—Are they more domestic or international, or both?

Mr Costello—A combination of both. We are very attracted to domestic opportunities because we have to manage against an Australian inflation benchmark. Domestic infrastructure and property assets tend to have a high amount of domestic inflation protection, so that makes them very attractive for us. It also reduces for us the challenge of having to manage an asset in another currency and having to think about that and potentially bring those foreign currency assets back to Australian dollars. So we are very attracted to both, and we have been building up the program. We held as at 31 March just a little over \$5 billion in a combination of property and infrastructure assets, and we have been working away since then. Our next update would indicate that is a little high, but they do take us a lot of time to buy well, so at times it can appear frustratingly slow to inch up these percentages, even though the amount of dollars committed is quite substantial.

Senator JOYCE—You might have already answered this, but you have been made aware—and it is in the papers everywhere—of countries that are currently going through crises.

Mr Costello—Sure.

Senator JOYCE—Portugal; Spain; Greece; Italy; England, which is a big one; and Iceland. The front page of the *Times* is describing it—

Senator CAMERON—The United Kingdom, not just England.

Senator JOYCE—The United Kingdom, my good Glaswegian friend! What is the exposure in those high-risk areas that the Future Fund has? I am sure that you have done your due diligence and seen how much your exposure is in those areas. What is it? I imagine you would have some.

Mr Costello—Of course. I was not anticipating the England part of that—the UK part of that—so I do need to take that on notice. But thinking about the others—because we did discuss this last time—we hold about one-tenth of one per cent of the fund in equity assets, at least to the banking sector, in those markets. We were talking before about these broad market exposures and trying to balance that, so those are inherited through our broad market exposures as we transition. To answer the question, it is about one-tenth of one per cent.

Senator JOYCE—That is across all four funds?

Mr Costello—Only the Future Fund would hold foreign equity. The nation-building funds do not hold any shares at all; they only hold fixed interest securities. I am talking here about equity holdings. In terms of fixed interest holdings, we hold no sovereign exposure to those countries. I hope that answers your question.

Senator JOYCE—There is about \$650 million.

Mr Costello—No, about \$75 million—a little over one-tenth of one per cent.

Senator JOYCE—Thank you.

Senator CAMERON—Mr Costello, the last report that was published was the 2008-09 report. In the report there is small discussion about the global financial crisis, and you say this:

Accordingly, we expect that uncertainty and volatility will be elevated for some time to come. While requiring careful analysis, such an environment creates opportunities for investors, especially if they are alert, flexible and selective in their risk-taking. We are confident that the range of skills we have built internally, supported by a strong and growing panel of excellent external investment managers and advisers, is well equipped to take advantage of the environment ahead.

That is quite a comforting position, and we are nearly 12 months on from that.

Mr Costello—Sure.

Senator CAMERON—Do you resile from any of these comments?

Mr Costello—When you say it like that, it is always a standard against which we can be tested, but what I would say is that we have done exactly what we said. These market conditions have provided us with an ability, particularly in credit markets, to secure, from our perspective, extremely attractive returns at much lower levels of risk—equity like returns at debt like levels—and that is as a result of being nimble and using our capital through our own strategic settings and through these relationships that we have with managers. As a general rule, I think that goes really to our relative resilience through these times. As I indicated

before, we are impacted by these events, but perhaps less so than many might be as a result of trying to do exactly what we set out to do at that point in time.

Senator CAMERON—The report goes on to identify ‘Significant Accounting Judgements and Estimates’ in a heading and goes on to talk about the global financial crisis and liquidity in some investment markets having decreased. It then goes on to say:

Investments in certain interest bearing securities, collective investment vehicles and non-exchange traded derivatives held by the Fund may therefore be deemed to be investments in an inactive or unquoted market.

Can you explain that to me?

Mr Costello—I recognised the first comment, but I recognise that less. It is not that I would disagree with it, but does it come from the financial statements or from the editorial part of the report? It sounds to me like a note to the accounts.

Senator CAMERON—It is on page 56.

Mr Costello—That would suggest that it is towards the back of that.

Senator CAMERON—Yes, it is note 1.

Mr Costello—It is a note to the accounts, so I think that would really be explaining the extent to which, when we value assets, as we are required to do, there are quoted markets and others where determining pricing is less in an open market. I think that is our point there about unquoted markets. I certainly would not ask you to repeat it, but the general statement, I believe, referred to the fact that not all the assets we own are valued in open markets—in share markets or bond markets. With some we have to rely on independent valuations from unquoted markets, and that was the point that we were making as a disclosure note.

Senator CAMERON—How is your namesake going? Is he relaxed and comfortable on the board of guardians?

Mr Costello—He is fine, thank you. He has attended, I think, three meetings since starting in February, so he is well settled in and across the issues.

Senator CAMERON—Thanks.

CHAIR—Thank you, Mr Costello. Nice to see you again.

Mr Costello—Thank you very much. We are now going back to program 1.2, ComSuper.

Senator Sherry—No, that is public sector superannuation, and then ComSuper with them.

CHAIR—Okay, public sector super.

Senator Sherry—And ARIA normally come in as well, because there is a fair bit of crossover sometimes.

Proceedings suspended from 4.49 pm to 4.57 pm

CHAIR—Welcome back. We have with us this afternoon officers of the Department of Finance and Deregulation. I welcome officials from Australian Reward Investment Alliance and also ComSuper. If there are not any opening statements from either of the parties that have just joined us, Senator Humphries will begin questions.

Senator HUMPHRIES—I want to ask some questions relating to the Matthews review into Commonwealth civilian and military superannuation arrangements or schemes. You would recall that I asked a number of questions at the last estimates, Minister. I note that we discussed on the previous occasion the amount of time that Mr Matthews had spent in Australia conducting the consultations surrounding his review. As you pointed out, he was overseas based so he had come to Australia for the purposes of conducting his review. He had a number of meetings over, I think, three days and then, as I understand it, left almost immediately to return to Great Britain. With so many of these matters—including reports of parliamentary committees—there is a secretariat that advises the person or persons conducting the inquiry and a substantial amount of the work that is conducted effectively is drafted, at least, by the secretariat. Can you confirm whether that was the case with this particular review?

Senator Sherry—Secretariat support was certainly provided. Beyond that I do not have any knowledge or any detail. How that secretariat support was provided, the time taken et cetera were in Mr Matthews' relationship.

Senator HUMPHRIES—I understand there were two members of his secretariat. I will not mention their names but I assume they are known to officers at the table. Where did those members of the secretariat come from and what were their substantive positions when they were not assisting with this review?

Mr Sotiropoulos—There were three internal finance staff on the secretariat. A substantive SES band 1, an EL1 and another acting EL1 were part of the secretariat.

Senator HUMPHRIES—They all had substantive positions in the department of finance?

Mr Sotiropoulos—Those three individuals did.

Senator HUMPHRIES—They moved to the inquiry while it was conducted and then moved back after the inquiry to their substantive positions.

Mr Sotiropoulos—That is correct.

Senator HUMPHRIES—As part of that process they considered the submission which the department of finance had made to the inquiry and assisted the inquirer, Mr Matthews, with his assessment of that submission?

Mr Sotiropoulos—That is correct.

Senator HUMPHRIES—Did the three persons take a hand or play a role in the drafting of the report for Mr Matthews?

Mr Sotiropoulos—They did. As Senator Sherry indicated, they worked with Mr Matthews on drafting the report. They were totally independent from staff within the department.

Senator HUMPHRIES—I accept that a Chinese wall was erected while they were conducting this inquiry, but, Minister, it could be said, could it not, that we had an inquiry which in part was a reflection or an assessment of previous work conducted by the department of finance, for example with respect to the calculation of the cost of changing the indexation method of Commonwealth superannuation pensions and there was a substantial and substantive submission from the department of finance and officers seconded from the

department of finance were assisting Mr Matthews to process that submission? You would be aware that there are criticisms of the report on the basis that it was not sufficiently robust and did not sufficiently analyse and make a critical assessment of the position and advice of the department of finance. Do you think, with respect, it might have been better to have established a secretariat which had no connection with the department of finance in undertaking this review?

Senator Sherry—How the review was conducted by Mr Matthews was his call. Who he chose to rely on for administrative and secretariat advice and support was his call. I can give you a comparison. The independent tax review, more commonly known as the Henry tax review, had very extensive support from perhaps not exclusively Treasury officials but predominantly Treasury officials. A very substantial number—I think about 40 to 50, but do not hold me to this number—of staff were taken into that group including many from the tax area of Treasury to provide a range of administrative and logistical report writing and even support. In fact, some of them have gone back to the tax area of Treasury and would oversight implementation. I really do not see the arrangements as anything unusual in the light of the required independence. At the end of the day it is Mr Matthews who made the call on those issues. To be frank, I think some people did not like the outcome; they did not like Mr Matthews' conclusions. I think that is part of it and they have taken an opportunity to disagree with the findings and, in this case, disagree with the issue of some people who provided secretariat advice. In my dealings with Finance and Treasury in these areas of reviews, I have every confidence, and I have seen no indication whatsoever, that there was any issue with the staffing support to Mr Matthews, none at all.

Senator HUMPHRIES—You say it was Mr Matthews call as to what resources he sought to support him in this role. Did he have a budget to conduct the review?

Senator Sherry—I made the appointment of Mr Matthews. For example, you have raised the issue of the budget, expenses and funding. Of course he was not paid for his services, and that has been discussed on a previous occasion. But it was then over to Finance. I had no involvement at all once Mr Matthews was appointed. How he conducted the review and the secretarial support et cetera was up to Mr Matthews to liaise with the department of finance. I had no involvement beyond that point.

Senator HUMPHRIES—I accept that, but you said Mr Matthews had the call as to the resources he called upon. If he had chosen not to use officers of the department of finance, did he have a budget at his disposal to obtain secretarial support from somewhere else?

Senator Sherry—I appointed Mr Matthews. It was an over to him to conduct the review.

Senator HUMPHRIES—But he needed a secretariat. Where was he going to find a secretariat, if not from the department of finance?

Senator Sherry—Obviously he had to discuss that issue with the department of finance. He came to those arrangements. I had no involvement and have no knowledge about the interaction between him and the department. That was over to him.

Senator HUMPHRIES—Then my questions are really directed to the department, not to you. If Mr Matthews had said, 'I want a secretariat made up of consultants from KPMG or

people whom I know are competent in this area,' would he have been able to do that? Was there a budget to provide for him to do that?

Mr Sotiropoulos—There was no budget specifically allocated to the project. All procurement that occurred or any additional work Mr Matthews sought was subject to normal departmental policies. If he wanted additional actuarial work done, we liaised with him and then he went and obtained it. All we checked was that it was value for money and that it fitted within the guidelines that the department had for procurement. If he wanted additional people to assist him, the same process would have occurred.

Senator HUMPHRIES—So he did not seek any resources for the secretariat role outside the department of finance?

Mr Sotiropoulos—No, he did not.

Senator HUMPHRIES—If he had sought that, subject to it being a reasonable claim, he would have been granted it?

Mr Sotiropoulos—That is correct.

Senator Sherry—I can think of one other example—the Cooper review into the operation of the superannuation system. I think there were seven on that panel. The secretarial support for that was predominantly drawn from Treasury, from the Markets area of Treasury—people who have superannuation expertise. It is no longer my ministerial responsibility, but I am aware they certainly did some outside research consultancy work as part of that process. But, again, once an individual or a group is tasked to carry out an inquiry or a review, or whatever it may be, it is then their call as to how they handle those issues.

Senator HUMPHRIES—That is my point. I assume that Mr Matthews was conducting his review in a way which was meant to give proper scrutiny subject to his terms of reference to the issues which had been referred to him. One of those terms of reference was the full cost to the Commonwealth of a change in the indexation method for superannuation schemes.

Senator Sherry—Having read the report, I have no doubt that was a consideration. It has been one of the major areas of policy debate not just in terms of Finance's view but amongst the various organisations and individuals who put submissions to the review.

Senator HUMPHRIES—Indeed, but a key submission to the review was from the Department of Finance and Deregulation. I have looked at the department's submission and I have looked at Mr Matthews's report and I can find no significant area of variation between the findings and assessments—including, for example, the cost of a change in superannuation indexation—from what was recommended by the department and what Mr Matthews has adopted. You said on the last occasion, Minister, that you appointed Mr Matthews because he was, among other things, an eminent Australian actuary. Doesn't it seem surprising that he was appointed because he had these skills, but does not appear on the face of his report to have actually used those skills to reassess the calculations made by the Department of Finance and Deregulation on the cost of changing the indexation method for those pensions?

Senator Sherry—This is essentially speculation about Mr Matthews's approach. Mr Matthews as an actuary may have looked at—may, I stress; I do not know—the calculations

and figures of the Department of Finance and Deregulation as an actuary, of which, obviously, he is a very, very qualified individual, and come to a conclusion. But I do not know.

Senator HUMPHRIES—He does not refer to having made an actuarial assessment of the department's conclusions in his report. You would think he would mention that if, as an eminent actuary, he was actually there to verify, according to the terms of reference, the full cost to the Commonwealth of a different scheme.

Senator Sherry—But as an actuary—and that was amongst the range of expertise and background; it is amongst that—as I say, he may have looked at the calculations of the department. I simply do not know. He conducted the review.

Senator HUMPHRIES—I put it to you that, given that he has taken the department's submission—and in fact you can see where he has almost, with respect, cut and pasted large bits of it into his report—that had he independently, using his actuarial skills, assessed the validity of those calculations, he would have said so in the body of his report.

Senator Sherry—I simply do not know, because I am not Mr Matthews, the extent to which he, as an actuary, examined those figures and made any particular test of those calculations.

Senator HUMPHRIES—You appointed him because she knew him personally. You told us that on the last occasion. Did you discuss with him after he had produced the report?

Senator Sherry—I appointed him because he had the appropriate level of background, understanding, expertise and independence to carry out this examination—not because I knew him.

Senator HUMPHRIES—But where is the evidence he exercised that independence and that skill?

Senator Sherry—Not because I knew him. Just let me finish. I have to say, frankly, there is a very, very high probability, whoever I appointed to carry out the review I would have known, simply because of my long involvement in superannuation issues. If I had have appointed someone in Australia who was a current resident of Australia, I think there is a very, very high likelihood probability that I would have known them. That in itself was not the issue; the issue was the level of expertise and the fact that I saw it, frankly, as an advantage that he was working outside the country at that point in time—aside from the fact that he indicated that he would not charge for his services.

Senator HUMPHRIES—You have attributed certain motives to some of the critics of Mr Matthews's report. But can you understand their concern that this person has been appointed by you, as someone who you knew; has conducted this review for free; has taken Department of Finance and Deregulation staff onto his secretariat to assist him, exclusively from Department of Finance and Deregulation; has eschewed the opportunity to use independent, outside staff; has adopted large parts of the Department of Finance and Deregulation submission; has not apparently on the face of the report conducted any independent actuarial assessment on his own part or using the agency of anybody else to assess or check the department's calculations; has been in the country three days to conduct his review and has left; and presumably has had staff of the Department of Finance and Deregulation actually

write the first draft of the report. It does look a little bit like, with great respect, a bit of a stitch-up.

Senator Sherry—No, I do not accept that. Firstly, we do not know whether or to what extent Mr Matthews, as an actuary, examined the submissions and figures put before him. This examination would not have occurred just when he was here taking submissions. He took submissions and read them while he was here and when he was out of the country. It did not occur just while he was here in the country. Secondly, with respect, I have come to the conclusion that some people do not like the outcome, they do not like his recommendation. This recommendation went to government after I ceased to be minister. I had no involvement in the internal discussion about whether to accept his recommendation or reject it. Those responsibilities had passed back to the Minister for Finance and Deregulation, Mr Tanner. So I had no involvement myself because I was no longer responsible for these portfolio areas when it was discussed internally by the government and an announcement was subsequently made by the finance minister, Mr Tanner. I think the criticisms that have been made by some are unfair and reflect the fact that they do not like the outcome. That is the conclusion that I have reasonably come to.

Senator HUMPHRIES—You have mentioned your personal relationship with Mr Matthews. To provide some level of comfort and satisfaction to the people who have been critical of this process, could I ask you to contact Mr Matthews and ask him whether he did in fact use his skills as an international actuary to review and assess the basis of the calculations made by the Department of Finance and Deregulation and satisfy himself that they were sound when he adopted them in the course of his review.

Senator Sherry—I would have to take that on notice. I no longer have any formal ministerial responsibility in this area and I am obviously cautious about cutting across another minister's responsibilities. I am happy to take it on notice and ask the minister who is responsible for considering this report, the Finance Minister, Mr Tanner, to do that. Yes, I know Mr Matthews, but, certainly in Australia, it is not unusual for me to know virtually anyone I can think of who could have been appointed to conduct the review. That is not unusual. If I had appointed someone in Australia, we almost certainly would have the claim that I know the person I appointed. I am absolutely certain of that.

Senator HUMPHRIES—I grant you that. But it would be a little bit unusual if you know them well enough that they would conduct the review for free. I do not know many actuaries that work for free.

Senator Sherry—Again, some people seem to make a point of attacking or criticising Mr Matthews for this. The former ambassador Mr Alston appointed Mr Matthews as the Australian honorary consul when he was present in Edinburgh, which he did for free on behalf of a country. I happen to know that because former senator Alston was the ambassador and we discussed this issue with him. Mr Matthews is that sort of person. He is extremely dedicated and committed to Australia.

Senator HUMPHRIES—At page 64 of the report there is reference to the way in which the calculation of the cost of a change in indexation might be worked out. I understand that the costings contain an assumption that members of the MSBS and the PSS would take an

increased proportion of their entitlement as a pension benefit, rather than as a lump sum, under alternative indexation arrangements. Is someone able to tell me the dollar amounts and percentages by which that assumption increased the estimated cost of a change to the indexation methodology?

Mr Sotiropoulos—Senator, could you please repeat the question.

Senator HUMPHRIES—I understand that the costings for the proposed changes to pension indexation—that is, whichever is the greater of the CPI or 25 per cent of MTAW—contained an assumption that members of the MSBS and PSS would take an increased proportion of their entitlement as a pension benefit rather than as a lump sum. Can you tell me the dollar amounts and percentages by which that assumption increased the estimated cost of a change to the indexation methodology?

Mr Sotiropoulos—I can. I would just like to clarify that the actuary, Mercer, prepared all the estimates on our behalf. As to the assumption in terms of proportions, currently the estimates allow for 60 per cent of members in the civilian schemes to take a pension, but they have increased that to 70 per cent on the basis that the pension would become even more valuable than it currently is. On the military side, the Australian Government Actuary undertook the estimates. From memory, they did not change their assumption on the take-up rate for the pension because it is already very high. So there were two different actuaries that prepared the estimates.

Senator HUMPHRIES—If that assumption is not accurate you can get back to us about that. Can you tell me how that changed the dollar amount in the calculation?

Mr Sotiropoulos—I would have to take that on notice.

Senator HUMPHRIES—Can you tell me what the experience has been since 2008 regarding the assumption that MSBS and PSS would take an increased proportion of their entitlement as an indexed pension. Has the assumption you have just referred to been borne out by the actual experience of the last couple of years?

Mr Sotiropoulos—Given that the methodology has not changed, there is no evidence on which to make an assumption.

Senator HUMPHRIES—I would like to ask you about an issue which was touched on by Mr Matthews in his report. He talked about the difficulty of relying on the CPI as an indicator of inflation affecting retired people. He recommended that, if a robust index which reflects the price inflation experience of superannuants better than the CPI becomes available in the future, the government should consider using it. What stage have we reached with implementing that recommendation?

Mr Sotiropoulos—That has not been progressed since the review because there is no appropriate living-cost index that the ABS produces.

Senator HUMPHRIES—As I understand it, they have a variety of living-cost indexes.

Mr Sotiropoulos—That is right.

Senator HUMPHRIES—I thought one of them referred to older Australians or some measure that was appropriate.

Mr Tune—There is a pensioner index but there is not one for superannuants per se.

Senator HUMPHRIES—So you are not aware of any work being conducted by the ABS or anyone else to produce the kind of index that Mr Matthews referred to?

Mr Tune—No.

Senator HUMPHRIES—Are there any plans to take that up?

Senator Sherry—I actually have administrative responsibility for the ABS, but that comes up under Treasury. I can check whether there is any work being conducted on an alternative index.

Senator HUMPHRIES—I would be grateful if you could. I take this comment by Mr Matthews as an acceptance of the fact that the CPI is not a satisfactory measure of how much the cost of living is going up for people in this category. Since he was moved to make that recommendation, I assume there is a suggestion there that it would be useful, from the point of view of just outcomes, if that were done. So I would be grateful, Minister, if you could let us know whether there are any plans to do that. Separately, there has been some concern about the way in which the ABS discounts some cost increases to account for what are supposedly improved outcomes in those areas. I will give you an example of what I am referring to. There have been increases in rents in the capital cities in particular. I understand that the full cost of those rent increases has not flowed through to the CPI because it is assumed that those rent increases are accompanied by an improvement in the quality of the housing that has been delivered. The ABS therefore discounts the rent increases for that factor. Similarly, increases in the cost of computers are not fully factored into the CPI because new computers come with extra capacity and so forth. I understand that there has been a debate about this. Is anyone able to indicate to me whether those factors have been considered by the department of finance and whether they have any input to the ABS in the way in which those factors are used to calculate CPI for the purposes of applying to this matter?

Mr Tune—The answer is no. We do not have any role in advising the ABS or providing any information about how they measure the CPI. As you know, the ABS is an independent entity. The methodology it uses and the numbers it comes up with are totally independent of us and totally independent of government.

Senator Sherry—Senator Humphries, I am happy to raise the matter with the ABS but it might be appropriate for you to raise it with them next week at estimates. As Mr Tune said, they are totally independent. Yes, they consult on the make-up and measurement of various indices but, at the end of the day, they make the call on what is included, what is not, the weightings they are given et cetera.

Senator HUMPHRIES—I suppose that the government, as a major client of the ABS, has a vested interest in those indicators being as accurate a measure as possible of increases in, in this case, the cost of living—not just for the purposes of this calculation but for the purposes of pensions as well.

Senator Sherry—As I said, the ABS is totally independent and reaches its own conclusions. There is no consultation with my office, as the minister responsible for the ABS,

on those sorts of issues—other than to communicate that a consultation would be taking place and the conclusions that they come to.

Senator HUMPHRIES—The Matthews report, again adopting what the department of finance put to it, stated that unfunded liabilities accruing by 2020 for civilian and military pensions, using the CPI or MTAWA methodology, would be in the order of \$82 billion. This figure appears to have been derived by taking a proportion of the 45-year term of unfunded liabilities. Is it possible to tell us how much of a discount there was over that 45-year period to account for the deaths of people who would have been in that scheme for part of the time?

Mr Sotiropoulos—We do not have that level of information. That is something that the actuaries would have used as part of their methodology.

Senator HUMPHRIES—Can we seek that information from the actuaries.

Mr Tune—I think what is being said is the correct interpretation—that the actuaries would feed in their standard assumptions and come up with those figures.

Senator HUMPHRIES—But we do not know what the standard assumptions are. If we knew what they were, we would be able to—

Mr Sotiropoulos—We will have access to the studies, so we will take that on notice. We will have a look at that and get back to you.

Senator HUMPHRIES—Thank you.

Senator Sherry—It was the Government Actuary that did the military side. He is publicly available at estimates, through Treasury, if you want to speak to him. The private actuary was Mercer. I am sure we could make those details available, but I will take that on notice for the minister.

Senator HUMPHRIES—Thank you.

Mr Tune—I just want to go back to the discussion we were having earlier about Mr Matthews' view about the costings and so forth. You have heard that Mercer and the Australian Government Actuary did the costings on the civilian and military sides respectively. My understanding is that Mr Matthews quizzed both of those agencies on their estimates, their methodology and so forth. So he did apply his professional judgment in terms of forming a view about the recommendations he might make.

Senator HUMPHRIES—I suppose the request I made to the minister to verify that would be useful in that respect

Senator Sherry—I will still pass the request on to the Minister for Finance and Deregulation, Mr Tanner, and if in fact that occurred—and, as I said, I have no knowledge that it occurred—I will verify it and the extent to which it occurred.

Senator HUMPHRIES—Thank you.

Senator CAMERON—Minister, are you aware of any analysis or initiatives or assessments that the Howard government made on this issue during the 11½ years it was in government?

Senator Sherry—The only study I am aware of—I forget the title—was an examination into this issue as well as a range of other issues on military superannuation. I forget the name of the individual who did the review—

Mr Sotiropoulos—The Podger review.

Senator Sherry—That is right, the Podger review. That was under the auspices of the Department of Defence, which carried out what is known as the Podger review.

Senator CAMERON—Did the Howard government take any steps to increase payments or change the basis of payments arising from any of that?

Senator Sherry—No, none at all.

Senator CAMERON—Okay, thanks.

Senator KROGER—I understand the federal government is embarking on a project to improve the quality of the assembly of data of the various super schemes, including those for defence personnel. I understand that is on the basis of concerns or issues that there have been with data assembly. Is that the case?

Mr Tune—A review was done a year or so back of ComSuper. One of the issues that came out of that review was to look at the quality of the data. There is a process going on between the department of finance and ComSuper about the process. Mr Hutson from finance has been involved in that as has been ComSuper itself. Both may wish to comment.

Mr Bator—That is true, there is a contract out to find somebody to examine the ways that data is held in ComSuper and the quality of that data. Having said that, there is no evidence that the data holdings are in any way causing any incorrect benefits to be paid to members.

Senator KROGER—So when you say a contract is out—

Mr Bator—A consultancy is being sought.

Senator KROGER—by that I presume you mean you have put a contract out to seek tenders for the job. Is that right?

Mr Bator—The department of finance is organising that.

Senator KROGER—So you are not aware of any incorrect payments that have been made with the current ICT?

Mr Bator—The reason the review focused on the data was really to do with the speed with which ComSuper processes benefits. One of the concerns that staff had was that, given the length of time that a lot of the data that we hold is used when calculating a benefit, the process of verifying data with former employers and the member is very slow. Consequently, the speed of processing is reduced because of the extra need to make sure that the data we use to calculate the final benefit is correct. So we over-engineer the benefit payment process by verifying data that we have with the member and with former employers to make sure that the benefit paid is correct. There is no evidence, that I am aware of, that suggests that the data holdings, however they may be, are causing any incorrect payments to be made to members.

Senator KROGER—I am sure everybody would be very pleased to hear that. If there is no issue with incorrect payments or concern that inaccurate transactions are happening then what has precipitated the review?

Mr Bator—The fact that we take longer than the industry average to pay some benefits. Because we spend more time validating the data and getting more supporting data, we are then slower—or had been slower—to pay benefits than other administrators.

Senator KROGER—What sort of time frame are we talking about?

Mr Bator—At the time of the review, it was taking around 14 days from go to whoa. It is now taking around four days. We have not been sitting on our hands and doing nothing all the time, we have actually been working on it. Our hope is that by getting this consultancy and getting some additional views and help, the performance might be even better.

Senator KROGER—Is there an industry benchmark for ‘reasonable turnaround time’?

Mr Bator—The defined benefit side is quite unique. I would like to think that we do it as well as we possibly can—and we are close to that now with the four-day turnaround. However, compared to some other industry funds, particularly those in the private sector, which are accumulation style funds much like a bank account, we are much slower. In terms of trying to find greater efficiencies and improved performance for both trustees and members, this particular consultancy is something we are very much looking forward to.

Senator KROGER—Do you anticipate receiving many tenders for this job?

Mr Hutson—The tenders for what we call the ‘data quality adviser’ have closed and they are currently being assessed.

Senator KROGER—How many tenders do you have?

Mr Hutson—Given that the process is still running, I am not sure I am comfortable to say. But I am certainly happy to take that on notice and tell the committee at a later stage.

Senator KROGER—With a different ICT system do you anticipate that there will be cost savings?

Mr Hutson—That is almost a hypothetical question. It really depends on the outcome of the consultancy. I really do not have an answer for that question at this stage.

Senator CAMERON—Senator Kroger, I hope you are not asking a hypothetical!

Senator KROGER—I would not dare follow the standards you have set! I will rephrase that question: are cost savings part of the parameters you have included in the contract?

Mr Hutson—The contract that we are seeking is really to get the data quality adviser to produce a catalogue of data issues that are currently in the ComSuper system and to also develop for us an implementation strategy to address those issues, where that is cost effective. In that process we will presumably also generate efficiencies within the ComSuper system. Certainly the superannuation administration reform project as a whole is expected to generate savings in the cost of the administration of Commonwealth superannuation.

Senator KROGER—The Taxation Office has been implementing a new system. The complexity and number of transactions have caused significant changeover issues. I presume

that those sorts of changeover considerations would also be taken into account in the consideration of any tender.

Mr Hutson—Firstly, the tender we are currently running is not designed to produce a recommendation concerning a new IT system for ComSuper. However, there is a part of the superannuation administration reform project that does look at the IT needs of ComSuper, and that process is also continuing. I have no doubt that the transition issues are very much in the minds of everybody who will be looking at the project.

Senator RYAN—I have a report from August 2009 that lists ARIA as the 15th-largest shareholder in the Australian listed company BHP Billiton Ltd, with 8,379,137 fully-paid shares. Is that still approximately accurate?

Mr Crafter—I do not have the exact number of shares that we hold in BHP. Our investment arrangements are such that the decision to hold a certain security is delegated to an investment management company. That number may have changed.

Senator RYAN—Do you tender for people to manage the funds, in a similar way to the Future Fund?

Mr Crafter—Yes.

Senator RYAN—Over the past six weeks, have you had any communication with your investment managers about holdings you may have in the resources sector?

Mr Crafter—Yes, that would occur as part of our regular review.

Senator RYAN—What has been the nature of those communications?

Mr Crafter—I do not have the details of specific questions or communications we have had with them.

Senator RYAN—Have you inquired of them, or have you discussed with them the recent falls in resources stocks in Australia?

Mr Crafter—Yes.

Senator RYAN—What has been the nature of those discussions?

Mr Crafter—That is a difficult question to answer because there is quite a lot of activity in the markets at the moment in relation to the markets' expectations of growth. The current issues that we face are to do with sovereign solvency in southern Europe, concerns about China and China's possibility of taking action to slow its economy, and falling commodity prices. The nature of the conversations have been around those issues as well as the proposed changes for tax arrangements for mineral companies in Australia.

Senator RYAN—I was going to suggest there was an elephant sitting in the corner behind us all—with respect to resources stocks, it would be fair to characterise that as a significant driver of market volatility over the past six weeks.

Mr Crafter—I do not know that our conversations have revealed a ranking of the impact of that issue versus those other issues. That has not occurred. It would be an issue.

Senator RYAN—A significant issue? You mentioned three—sovereign solvency, growth in China and the impact of potential climate change measures. Would it be as significant as those two? Would it be in the top three?

Mr Crafter—I really do not know how much of an issue it would be. I doubt that anyone could tell you what it would be.

Senator RYAN—Has that been an issue in discussions?

Mr Crafter—That question has been put to them. We have discussed that with them, yes.

Senator RYAN—What were your manager's comments about that particular fact—that driving market volatility—over the past six to seven weeks?

Mr Crafter—They have not made a comment, to my knowledge, regarding how much it has driven market volatility.

Senator RYAN—Have they made a comment about how it has impacted negatively on share prices in that sector?

Mr Crafter—The comments have been more along the lines of what their expectations would be of the impact on valuations if that tax was brought in.

Senator RYAN—What is the total value of your investment portfolio, roughly? I do not need an exact dollar figure.

Mr Crafter—The total portfolio is in the order of \$17 billion.

Senator RYAN—I am just looking at the BHP share price here since 12 April, which was the day before there was significant leaking, briefing or otherwise of news that hit the market about the proposed mining supertax. Just considering BHP, the share price then was \$44.45. It closed today, I believe, at \$37.26. So that significant drop of not quite 25 per cent—probably closer to 20 per cent, off the top of my head—represents a paper loss, if you hold the same number of shares now that you did in August last year, or whenever this report took as a census date, for lack of a better way of putting it, of over \$60 million. Surely, that would have been a significant topic of discussion. That was literally in the past six weeks.

Mr Crafter—The market itself for the last six weeks has had a significant fall from the date that you mentioned. The performance of the minerals sector is broadly in line with the broader market.

Senator RYAN—The minerals sector is a pretty large component of the Australian market, though, isn't it?

Mr Crafter—I do not know the exact market cap, but it is.

Senator RYAN—Resources stocks represent a significant proportion of the Australian stock market. There are some fairly large global companies listed here—or parts of them.

Mr Crafter—Sure.

Senator RYAN—You have not had specific discussions about the impact of the government's proposal either after the news hit the market in mid-April or after the Henry review and the announcement of the government's response on Sunday, 2 May. Have you had

specific discussions with your investment managers about the impact of those proposals upon your investments?

Mr Crafter—Yes, we have, and the feedback we have had is that if that tax were—the impact on net present value of the minerals sector is on average in the order of 10 per cent. That is the information that we have.

Senator RYAN—A 10 per cent impact on the net present value of the share price because of the government's proposal of this tax?

Mr Crafter—That is right. Many analysts have come up with the same sort of number.

Senator RYAN—You alluded before to having had some discussions about the potential impact of the tax upon your investments in this sector if it were introduced. Could you elaborate on that?

Mr Crafter—Could you be more specific with your question? I do not understand.

Senator RYAN—Before, you stopped mid-sentence and then started another sentence. You were alluding to discussions you may have had about the impact of this tax upon this sector not just now but over the last six weeks. The second phase I would like to explore is what discussions you have had about the impact of this tax upon your investments if it were to be introduced. What would you expect to happen to the share price of your investments if this tax were introduced by this parliament or a subsequent parliament?

Mr Crafter—Sorry, it is important to make a clear distinction. This is not analysis that ARIA has done. This is analysis which was done by ARIA's investment managers. They are engaged in securities valuation on a daily basis.

Senator RYAN—Presumably you pay them for that purpose.

Mr Crafter—Yes. So this is not ARIA's analysis; this is ARIA'S investment managers' analysis and the analysis of other security analysts in the market. From our understanding and interrogation of those financial market participants, the impact of the tax would be in the order of 10 per cent.

Senator RYAN—Is that 10 per cent from now or 10 per cent since mid-April? When we were talking a second ago I thought we were talking about what had happened over the last six weeks.

Mr Crafter—No. With what has happened over the last six weeks I simply cannot tell you what the impact of the discussion regarding the tax is; there is simply too much other activity in the marketplace to define what the impact of this tax is versus all the other things that have happened in the market in six weeks. My point is simply that, in asking our managers what the impact of this tax would be in terms of its impact on share prices if it were to be introduced, the answer is 10 per cent on average.

Senator RYAN—Your background, presumably, is in professional funds management of this sort?

Mr Crafter—Yes.

Senator RYAN—I find it difficult to believe that you are putting to me now that we have two international factors—you have mentioned China and the sovereign debt issue, which has

been going on a lot longer than six weeks but has reached a peak in Europe in the last month—but this is the sole domestic factor in what has been a significant impact of at least \$60 million on one of your shareholdings. You have not had specific conversations with your funds managers about the impact of the government's proposals upon the value of your investments, even if it is only over the last six weeks?

Mr Crafter—I accept that that is your view of it. The reality is the Australian market has not performed significantly out of line with global markets. It has performed largely similarly to global markets. The performance of the minerals sector is largely similar to that of the Australian equity market. We have had a conversation regarding what the likely impact is. I have answered that question directly: it looks like the impact of that tax if it were adopted—and that is still subject to a long path from here to that point—would be in the order of 10 per cent. The global market and other factors have been a significant driver of share values and investment values over the course of the last six weeks.

Senator RYAN—I am not disagreeing with any of that, but the trouble with comparisons solely to benchmarks of the rest of the market or the rest of the world is we do not know what the comparator is. What I am trying to ascertain here is the particular impact of this particular proposal, because we do not know if our markets would not have done slightly better. We do not know if the resources sector would not have suffered quite as much. In recent years the resources sector has, I understand, outperformed a number of the measures you mentioned, hasn't it? It has had a pretty good run.

Mr Crafter—I do not carry relative performance numbers around with me, but I could come back to you with that.

Senator RYAN—It is fair to say the resources sector has had a pretty good run in recent years, isn't it?

Mr Crafter—On the back of very strong commodity prices.

Senator RYAN—I was going to the point that the government is using this to justify its mining tax. Do you have information on the other resources stocks that you hold? I got this off a public document. I know you use funds managers, but do they provide you with information about major shareholdings they have with your funds?

Mr Crafter—Yes, we have access to that information.

Senator RYAN—Could you take on notice and provide to the committee a list of significant investments—I am happy for you to have discretion on that—in the Australian resources sector and the shareholdings held on behalf of ARIA?

Mr Carrigy-Ryan—We can provide that to you. We would typically have a holding in every listed company in Australia at any time. It would be very helpful if you could give us some idea. Do you want that in terms of a percentage shareholding?

Senator RYAN—I would like number of shares.

Mr Carrigy-Ryan—And the dollar value?

Senator RYAN—If you have that I am happy for you to do that, but I can do that myself. But I would be interested in the number of shares. What has me concerned here is that just on

paper over the last six weeks since the government has announced this there has been a \$60 million loss to ARIA.

Senator Sherry—It has been outlined to you that there has been a significant drop in almost every stock market in the world in the last six weeks, and we know what the predominant factors are.

Senator RYAN—We have just heard from ARIA that the impact of your proposed tax is to expect a 10 per cent drop in the value of their shareholdings. One of them alone has \$300 million. Mr Carrigy-Ryan, I would like to know about significant resources investments like large resources companies listed in Australia. I do not have a list of them off the top of my head, but I am happy for you to determine what a significant listing is.

Mr Carrigy-Ryan—We will provide that information and send it to the committee. That will be the last set of audited numbers as at 31 March. Please bear in mind that that will have changed; our investment managers trade on the market around the world every day, so at any point in time it will vary—as will the valuations, of course.

Senator RYAN—Mr Crafter, regarding the 10 per cent drop that you are informing me that you have been advised that we should expect if this tax is passed, is that a 10 per cent drop from today? We have already had a significant drop in the order of 20 per cent in BHP, the largest, so should I expect a more significant drop than that?

Mr Crafter—Just to be clear, the analysis is that that is a 10 per cent impact on the net present value of those investments on average. It is not a comment regarding the day-to-day movements in share prices, which will be impacted by a number of different things. So it is a net present value or, if you like, a fair value calculation. That is my understanding of what we have got.

Senator RYAN—I have only got numbers here for your holdings in BHP as at last year but I would not expect BHP, being the largest, to vary a great deal from the average because it is so dominant within that sector in Australia. So as well as the \$60 million drop I should probably also expect a further 10 per cent drop on the net present value of the shares, which have fallen from \$370 million to \$312 million.

Senator Sherry—That is totally speculative. It is not a question; it is a debating point. We will take the detail that you have asked for on notice and it will be provided.

Senator RYAN—Has that advice inspired ARIA to in anyway re-evaluate its investment in the resources sector?

Mr Crafter—Our investment managers make the decision about which securities they hold.

Senator RYAN—You give them a mandate.

Mr Crafter—We give them a mandate and typically that mandate is in Australian equities or global equities or the like. ARIA does not make a decision about directing our investment managers to hold particular market segments; we make a decision about the Australian equity

market as a whole. At this point we have not yet changed our long-term forecast for Australian equities.

Senator RYAN—Assuming you had a similar number of shares in BHP today as you did last August and unless something changes dramatically in the next four days, in your next series of statements—the last ones were done on 31 March—are you going to show a \$60 million drop in the value of your holdings in BHP Billiton? Is that going to inspire you to potentially reconsider your mandates?

Mr Crafter—Sorry, could you just repeat the question?

Senator RYAN—Your last set of audited accounts were on 31 March—

Mr Carrigy-Ryan—Those are valuations. They are the last set of audited valuations.

Senator RYAN—Oh, audited valuations, sorry.

Mr Carrigy-Ryan—You would be aware also that we market-value our listed securities everyday because we unit-price everyday. Movements in the equity market and every other market in which we invest are reflected in that unit price. So we mark to market everyday.

Senator RYAN—So you have been aware of this \$60 million drop in BHP shares over the last six weeks?

Mr Crafter—We have been aware of a significant drop in the value of our global investments and in our overall portfolio as a result of significant falls in global equity markets over the course of the last six weeks. BHP shares are part of that, so the answer would be yes.

Senator RYAN—BHP shares would be a large part of your portfolio. I think you said \$17 billion earlier?

Mr Crafter—I don't think I stated what the value of it was but it would be significant.

Senator RYAN—You have a broad portfolio. I think you roughly suggested earlier that the value of your investments was about \$17 billion.

Mr Crafter—The value of the investments is \$17 billion, yes.

Senator RYAN—If you have it handy, what is the rough value of your investments in the Australian stock market? What percentage of that would your investments represent?

Mr Crafter—We can come back to you with the exact number but it would be in the order of 30 per cent.

Senator RYAN—In the order of 30 per cent?

Mr Crafter—30 or 35 per cent.

Senator RYAN—So about \$6 billion, give or take. So the formerly valued \$370 million in BHP shares would represent a significant proportion of that. You unit-price by marking to market everyday, so you have been aware of the drop in this particular share and potentially in other stocks you hold in the resources sector over the last six weeks. Have you reconsidered your investment mandate with respect to investment in the resources sector over that period?

Mr Crafter—I refer to my previous answer. ARIA makes allocations and AS allocations to Australian equities. It is for our managers to make a decision as to which securities they hold

and what their particular market segment exposure is. ARIA has not had a policy in the past, and has no plan to change that at this point, in making particular allocations or offering particular mandates to particular market segments in the Australian market.

Senator RYAN—With the information you have had coming in daily, on the impact of this and other things on the value of your investments, have you provided any advice to government with respect to its proposed mining tax and the value of your holdings?

Mr Crafter—No.

Senator RYAN—Do you envisage, in the coming months, altering any of your investment mandates with respect to the resources sector?

Mr Crafter—At this point, no, there is no intention of us doing that.

Senator RYAN—Do you plan, in your publications or annual report, to—I am trying to phrase this question carefully. No, I think I will leave that question. It is a hypothetical. To be fair to you, I will not ask it. That is all I have for ARIA, Chair.

Senator CAMERON—Mr Crafter, you are aware that there is much posturing and positioning going on from the mining companies in relation to the government's attempt to get a fair return for the Australian public?

Mr Crafter—Yes, I read the papers.

Senator CAMERON—So, obviously, you will take into account posturing and positioning in the current situation before you start looking at your share assets?

Mr Crafter—As I have said, our investment managers are responsible for making security selections. That is not an activity that ARIA specifically undertakes. Our responsibility is to broad investment policy and broad asset allocation to reach long-term investment goals, not choose individual securities.

Senator CAMERON—Mr Carrigy-Ryan said that you watch on a daily basis the share market and how it is affecting—

Mr Crafter—Of course.

Senator CAMERON—Are you aware that Fortescue Metals Group went up 10 per cent today, by 34c? This is the same Fortescue Metals that says this country is a sovereign risk. How could a company go up 10 per cent if there is a huge sovereign risk to the company, and it is the end of the world? In fact, they were calling it a 'socialist tax' being imposed on them. How does that work out from an investment point of view? I am just bewildered by this.

Mr Crafter—The specific drivers of Fortescue Metals today is not something that I am aware of. As a general comment, share prices will be driven up and down by expectations. I do not know what drove Fortescue Metals up 10 per cent today.

Senator CAMERON—And Andean Resources is up nine per cent, or 28c. This does not sound like a war zone to me. Let's go to the big players. BHP-Billiton is up 2.7 per cent, or 98c. I would not think that is from a war zone analysis. And you can go on and on. I do not think there is one major player who has not increased their share price significant in the last day. I am just asking you: do you take these issues into context when you are responding to

the political claims from Senator Ryan in terms of trying for force some concession that the end of the world is happening for the mining industry?

Senator Kroger interjecting—

Senator Ryan interjecting—

CHAIR—Is that a question, Senator Cameron? Do you have any further questions?

Senator CAMERON—Yes. Are you aware that there are Liberal shadow ministers still investing in BHP, so they do not see it as a problem?

Senator Sherry—I think that is—

CHAIR—That is out of order, Senator Cameron. Do you have another question?

Senator Sherry—That is just a bit beyond his brief, please!

CHAIR—I think that is a long stretch. Are there any further questions?

Senator CAMERON—No, thanks.

CHAIR—I think that is already on the public record. As there are no further questions from committee members, I thank the ARIA witnesses very much for their time this afternoon. We will see you at the next round.

Senator RYAN—My questions are to ComSuper. In November 2009 the finance minister announced that the government would outsource the administration services of the PSSap—and please correct me if I am wrong on any of this—which was estimated to save taxpayers \$5 million annually. The budget papers reveal this year that ComSuper will decrease its staff numbers by 25 in 2010-11. Is that correct?

Mr Bator—We are reducing our staffing numbers for a range of reasons.

Senator RYAN—What are those reasons?

Mr Bator—Firstly, we are in the throes of a new industrial agreement and that pay increase will necessitate some further efficiencies within ComSuper. Secondly, there are some efficiencies and cost savings that we are to return to government which, again, will necessitate some reductions in the cost structures within ComSuper. As well as that, we are in the throes of trying to reduce some of our accommodation holdings over which we are going to return some money back to government.

Senator RYAN—Minister, in his press release of 26 November Minister Tanner said:

The outsourcing of PSSap is not expected to have an immediate impact on ComSuper staff ...

That seems to be a contradiction given the job cuts.

Senator Sherry—Not necessarily, given the explanation that we have just been given—and if you wish to add anything, Mr Bator?

Mr Bator—I would like to agree with what the senator was about to say there. The ComSuper staff working on PSSap are there and they will be there until the outsourcing occurs. There is a minor reduction perhaps if one or two people have left, but we are keeping the same contingent of staff on that task. So the savings that I have spoken about do not relate to PSSap.

Senator RYAN—So after the outsourcing there are no staff cuts?

Mr Bator—After the outsourcing we will not have that work to do.

Senator RYAN—So there will be staff cuts then?

Mr Bator—There will be but we have a natural attrition level which will allow for any staff that are currently working on PSSap, which are among our very good staff, to stay on at ComSuper and we want them to do that. We have a reasonably large attrition rate every year and we will comfortably deal—

Senator RYAN—So you do not expect any involuntary redundancies?

Mr Bator—Definitely not.

Senator Sherry—Perhaps Mr Bator can add to this. The proportion of staff working on PSSap as distinct from the PSSdb side is a very, very small proportion of the total ComSuper staff.

Senator RYAN—That leads me to my next question. I understand the difference between the plans broadly. Why the outsourcing of PSSap but not of the PSSdb or CSS functions?

Mr Bator—I can give an answer to that and the finance people can give a further answer to that. There is a market out there to work on accumulation style plans. Our core business that has been there for over 80 years is in that very complex area of defined benefit and we are good at it. That is an area that the government wants us to perfect our workings on. There is a ready market out there willing and able to do that work for our accumulation style scheme.

Senator RYAN—Thank you for your answer to that. That actually explains it to me. Does ComSuper have its own investment arm or is it all invested through ARIA?

Mr Bator—It is all invested through ARIA and through the MSBS.

Senator Sherry—ComSuper is the administration arm. It has nothing to do with the investment side.

Senator RYAN—I just wanted to check. That is all that I have for that output, Chair.

CHAIR—As there are no further questions, thank you all for appearing before us. We will see you at the next round.

[6.10 pm]

Medibank Private

CHAIR—Welcome. Mr Sammells, do you have an opening statement?

Mr Sammells—No, just an apology from Mr Savvides, our managing director, who could not be here today. He has been called overseas to an International Federation of Health Plans conference. He is a member of its council. He has asked me to deputise on his behalf.

CHAIR—Thank you.

Senator RYAN—Mr Sammells, Medibank is making some changes to its hospital cover taking effect on 1 June, isn't it?

Mr Sammells—That is correct.

Senator RYAN—How many products will be affected by these changes.

Mr Sammells—The majority of our hospital products would be impacted, assuming the change that you are referring to is changing part of the product feature to go from a restricted service to an exclusion service. I assume that is the change you are referring to.

Senator RYAN—I was going to explore that. That might be a nice segue for you to explain to us what is the difference between a restricted service and an exclusion service.

Mr Sammells—It is probably important for me to briefly explain the background behind why we are changing them. One of the perpetual feedbacks we get from our members is that our products are confusing and often hard to understand. When we marry that up with a range of complaints that come to the sector through the ombudsman there are similar issues. One of the issues is confusion between what a restriction is and what an exclusion is. A restriction means that if you go to a public hospital and use your private insurance you are covered for hospital treatment but if you go to a private hospital you are not fully covered and you can finish up with a large out-of-pocket. That is compared to an exclusion that principally means you are not insured for that service in either a public or a private hospital. So what we have done is provide clarity to our members through product changes. We have moved away from having restrictions in our hospital products to just using exclusions. The number of claims that we pay in a given year is less than one per cent of our hospital claims that we pay under this cover. In fact, the feedback from our members has been quite positive in terms of greater clarity and better understanding of the products.

Senator RYAN—If I am characterising it correctly, a restricted service is one so that if I am a private patient in a public hospital I have no out-of-pockets but if I am a private patient in a private hospital I might have an out-of-pocket.

Mr Sammells—Yes; you will.

Senator RYAN—And that is because of a lower simple reimbursement rate by Medibank.

Mr Sammells—Yes.

Senator RYAN—Whereas an exclusion is a service for which I am not eligible with that policy?

Mr Sammells—That is correct. It means that when you come to purchase a hospital policy, if we are using exclusions, you have complete clarity about which services you are—and which services you are not—fully insured for. We think that is a better outcome for members, as opposed to trying to explain the difference between restrictions and exclusions.

Senator RYAN—So would it be fair to characterise what you have done as effectively moving a lot of products, ones that were in what we might call that grey zone of ‘restricted’, and putting them completely into ‘excluded’?

Mr Sammells—Yes. We are talking about a very small number of services here as well.

Senator RYAN—A small volume of services?

Mr Sammells—A small volume; correct. In terms of the number of claims that we would get in a given year from what were restricted services it is a very small number of claims. It is now quite easy for us to explain to a current member or a potential new member by having

exclusions that are explicit in which services they are covered for. We obviously have a large range of products whereby members can insure themselves for everything.

Senator RYAN—I have a table that I assume was sent out by Medibank with letters. I am happy to table that if members of the committee are so that the witness can see it.

CHAIR—We will get it copied for everyone. While we are waiting for that, Senator Kroger has a question.

Senator KROGER—What do you define as a small volume of claims?

Mr Sammells—Less than one per cent of our hospital claims in a given year.

Senator KROGER—Which equates to how many?

Mr Sammells—Less than 4,000 claims a year would have been previously paid under the guise of restricted services.

Senator KROGER—How many members will be affected by the change—who may not have had the need to put in a claim but would be affected by the changes?

Mr Sammells—I think the important thing to remember about that is that in any given year only about 15 per cent of our members who will actually lodge a hospital claim. Whilst, clearly, there is quite a large number of people on the product, the actual impact on people is really quite small. I thought I had the number here, but I cannot find it. I will take the number on notice.

Senator KROGER—That is fine.

Senator RYAN—That table has now been copied and you have a copy. It is a document that I assume Medibank sent out to members—is that right?

Mr Sammells—Yes, to the best of my knowledge, that is true.

Senator RYAN—I only have a copy; I do not have the original. I can see why some of these might be small volume services. Would renal dialysis be one of those?

Mr Sammells—Yes, it would.

Senator RYAN—I also see some fairly significant procedures. I assume cardiothoracic procedures cover things like heart bypasses, to use the vernacular?

Mr Sammells—Yes. Looking at this sheet we have in front of us and at priority bronze, which is the first product on the table, that is in fact one of our cheapest hospital products. If you felt that you wished to be insured for cardiothoracic procedures, we have plenty of products available that members can purchase to fully insure themselves for that procedure at a public or a private hospital.

Senator RYAN—The only thing that concerns me is that you have cleaned up and made things simpler but you have made things simpler by substantially limiting access to services that were previously restricted. They could have been performed in public hospitals and people could have bypassed state waiting lists in public hospitals, presumably.

Mr Sammells—Yes. The danger with only looking at this sheet in front of us is that you are only looking at the products that were changed. If you could look at a list of all our products that are available and what is covered, which is the presentation that you might get if

you came into one of our stores or went to our website, you would find a very large choice about products that can insure you for whatever you wish to be insured for, including cardiothoracic procedures.

CHAIR—Can you provide that the committee so we have the full context of what we are talking about?

Mr Sammells—We are happy to provide that on notice.

CHAIR—Thank you.

Senator RYAN—I assume that these changes will actually lead to a reduction in benefits paid by Medibank. There is a cost saving element to this, presumably?

Mr Sammells—It is very, very marginal. The primary benefit that we see from this change is stronger customer satisfaction, in the sense that it is much easier to explain our product suite to members when they are buying products. That is the principal benefit that we see. Our experience to date has been that.

Senator RYAN—And your experience has been that customers are happy? I do understand from previous hearings as well as other experience that customer frustration at lack of clarity is a prime driver of dissatisfaction.

Mr Sammells—Yes.

Senator RYAN—How many members would be affected by these changes?

Mr Sammells—Again, the numbers of members on these products, I have taken on notice. In terms of how many impacted, there are about 4,000 members a year that have historically claimed under restricted services. Medibank pays nearly one million episodes of hospital care per year, so in terms of impact of people throughout 3½ million members, it is not a large impact. In fact, the feedback internally from our customer-facing staff from our members has actually been quite positive.

Senator RYAN—Sure.

Senator KROGER—When was this change introduced?

Mr Sammells—Members were notified through their rate change letter, which was dispatched in March. I think I am correct in saying that the changes are effective from 1 July.

Senator KROGER—And they presumably pay monthly?

Mr Sammells—They do pay monthly. Not everybody, but a lot of people pay monthly, some pay quarterly, some pay yearly.

Senator KROGER—Have you got any evidence that the change has been rejected by members and that you have lost a number of members?

Mr Sammells—No, I have no material evidence of us losing members due to this at all. In fact one of the purposes of providing members such a large amount of advance notice is to make sure that they are really clear about the change that is going on and if they feel strongly that they wish to remain insured for some of the services that have moved from restrictions to exclusions there is significant time for them to choose a different product to ensure that they enjoy continuous cover.

Senator KROGER—Thank you.

Senator RYAN—If I could turn to your investment portfolio. Are you able to say what the value of your portfolio is—the most recent snapshot you took of it?

Mr Sammells—We have about \$2.2 billion of assets available for investments, as I sit here.

Senator RYAN—What proportion of that is invested in the local stock market?

Mr Sammells—The local stock market would be approximately 10 per cent of the portfolio.

Senator RYAN—What assets is the other 90 per cent typically held in?

Mr Sammells—The broad composition of our portfolio is that we hold about 40 per cent in cash, about 40 per cent in debt related investments and 20 per cent in what I would call growth assets, which is typically global and domestic equity holdings. That is our target and typical portfolio construct.

Senator RYAN—Thank you. I do not have any more questions for Medibank.

Senator CAMERON—Mr Sammells, I want to take you to *7.30 Report* land. The *7.30 Report* on the 31 March did a report on private health insurance. They had Jonathan Crabtree, the former executive manager of strategy for GMHBA. Did you see that report?

Mr Sammells—I think I have, yes. I cannot recall the details of it, but I am pretty sure I have seen it.

Senator CAMERON—I am pretty sure you would have. One of the issues that was raised in that report was the influence of iSelect. One of the arguments put forward there was that iSelect in its own right had become the third-biggest entity in health insurance and that if you are not in iSelect, you are not competitive. Do you have a view on that in terms of your organisation?

Mr Sammells—Medibank Private as a private health insurance product has never been on iSelect, and through that period of time that iSelect has grown its presence, I am pleased to be able to say that Medicare has perpetually grown its membership and, more recently, over the past three years has been able to grow its market share in parallel to the iSelect activity. So that has been our experience. We do not let the Medibank brand into that channel.

Senator CAMERON—Is that a deliberate decision?

Mr Sammells—Yes.

Senator CAMERON—Is that decision based on costings?

Mr Sammells—We have a very deep footprint through our distribution channel: our call centre access, our web and our 110 retail stores—those points of presence around the country. So I think our brand is quite well-known out there. We have not felt the need to put the Medibank product into the iSelect channel to enjoy growth.

Senator CAMERON—But if iSelect is becoming so powerful, would it be a consideration in the future?

Mr Sammells—I am not sure how we define iSelect's power. I think they have created presence, but if you went onto their website today—

Senator CAMERON—I am on it.

Mr Sammells—and you tallied up all the products that were there, I suspect you would be staring at less than 20 per cent of the market of available products in private health insurance.

Senator CAMERON—This is one of the things I want to ask you about: iSelect have got what they call a 'Best Deal Guarantee'. I am reading it in the context of making sure that Medibank Private continues to be a player and dealing with some of these issues, and iSelect have what they call a 'Best Deal Guarantee', where they say:

We stand by our health fund deals. So we guarantee that if you find a better deal (price or offer)—and they highlight this next part—

on the same policies, we'll give you a Myer voucher for 110% of the difference.

In that *7.30 Report*, Kerry O'Brien opened on the basis that consumers were so bamboozled by the complexity of a competitive market that this was a real issue. Could consumers find the same policy from competing entities? I just do not think you can. There is no such thing as two policies that are the same, is there?

Mr Sammells—I would say that there are similar policies. I think it is fair to say that, if you are asking whether there is a completely and utterly identical product, the answer may be no. Some of the differences are quite subtle. You could go to some of the other sites such as the Ombudsman's site and cite 100 per cent of the products available from the 37 private health insurers around the country and have a very clear articulation of all the product features that might provide more comprehensive comparison for a consumer.

Senator CAMERON—Has iSelect ever approached Medibank Private?

Mr Sammells—They have approached us from time to time, testing our interest in putting the Medibank Private brand into iSelect, and we have, obviously, said no to that.

Senator CAMERON—Did they put the same proposition to you—that you would have to pay \$750 upfront to cover—as they did to Jonathan Crabtree at GMHBA?

Mr Sammells—When they talk, they do not always talk about an absolute dollar number. I suspect their model varies a bit, but typically they look for a percentage of the premium that is sold. As I said, from a Medibank Private private health insurance product perspective, we have pretty deep, far-reaching consumer channels that are delivering us growth and growth in market share. We will stand by that and not look to put the Medibank brand through iSelect.

Senator CAMERON—Sure, but when they have come to you, has the percentage been in the range of \$750 per cover?

Mr Sammells—I honestly cannot recall the numbers. It would be inappropriate for me to declare those numbers publicly because they have a range of contract relationships to the various health funds and I do not know if they charge the same or different rates to different funds.

Senator CAMERON—Why it would be inappropriate for you to tell me what a private company is putting to you as the price of going onto iSelect? GMHBA have no reticence.

They have come out publicly and put that position. One of the key issues for the government is to maintain Medibank Private as a balance against some of the excesses in the market, so why wouldn't it be appropriate for you to give me that advice?

Mr Sammells—To the best of my knowledge, we have not taken their proposal to the extent of having a firm contract proposal in front of us because, as a point of strategic difference, we have not taken ourselves to that level of conversation with them.

Senator CAMERON—I am not asking you for a firm contract proposal. I am asking you what they put to you. Do you want to take that on notice?

Mr Sammells—I can take that on notice.

Senator CAMERON—Thanks.

Senator KROGER—I want to ask you about the recent acquisition of, as I understand it, a phone and web based call centre, McKesson Asia-Pacific.

Mr Sammells—That is correct, yes.

Senator KROGER—What was the rationale for that acquisition? Is that an indication of a different direction in business growth?

Mr Sammells—The strategic rationale behind it is the fact that we have been a customer of McKesson's for in excess of five years. We have had Medibank members enrolled in a range of their health management programs for that duration. We have been growing the presence of Medibank members using their services because we think it is in our best interests and in our members' best interests ultimately because if there are people with a chronic disease or health risk factors, McKesson have some programs that are to the member's benefit if the member wishes to enrol in them. It is all about giving the member a better health outcome and, from an insurer's perspective, potentially slowing the rate of growth of future health spend. As we think about an ageing population, and we all understand the future health pressures, we think there is a growing role and responsibility for private health insurers to take a greater responsibility for the health of their members. McKesson is a very good quality company that has good quality programs that we would like to grow in the long term. So rather than have them as a contracted party—they were owned by a US parent and therefore there were times we felt uncomfortable about the fact that the service could be removed from our members at some later stage by the US parent changing their mind about this marketplace—there was an opportunity to ultimately acquire the service. We have taken up that opportunity.

Senator KROGER—Thank you. Clearly it was undertaken on the basis of extending what you could offer members.

Mr Sammells—Yes.

Senator KROGER—Do you anticipate any changes that will be required for consolidating staff? Will there be any core staff reductions or rationalisation of staff?

Mr Sammells—There will be very, very small numbers of that because we are interested in growing and expanding that service.

Senator KROGER—Finally, where were they based? Where were their headquarters?

Mr Sammells—They have headquarters in Lane Cove, Sydney, and they have a presence around the countryside, call centres in Melbourne and in Perth.

Senator KROGER—Thank you.

CHAIR—Thank you to Medibank Private for appearing before us. When we recommence we will begin with program output 1.3.

Proceedings suspended from 6.33 pm to 7.53 pm

Department of Finance and Deregulation

CHAIR—Welcome back. We are going to continue on with the Department of Finance and Deregulation and program 1.3.

Senator RYAN—You may need to take some of these questions on notice. Can the department provide a list of all the projects that are being funded through each nation building fund?

Mr Tune—We can, but I will have to take it on notice.

Senator RYAN—I note that in the Building Australian Fund special account, which is listed on page 30 of the Finance PBS, there is basically a 50 per cent decline in forward year 3. Is there a particular expense item that I have not seen that explains that?

Dr Feeney—There are large commitments out of BAF for that year—\$3.3 billion—made up of a number of projects. There is a high weighting in the profile for that year. That can be provided in the answer on notice—the projects for the forward estimates as well.

Senator RYAN—Do you incur management fees for the nation building funds?

Dr Feeney—Yes, in the Future Fund does charge us management fees.

Senator RYAN—Could you provide me with the cost of management fees over the next four years, over the forward estimates, on notice.

Dr Feeney—We have them here.

Senator RYAN—If you read them out I will get them out of *Hansard*. I do not think I can write them all down.

Dr Feeney—They are a function of asset undermanagement. They do vary. For instance, for 2010-11, the management fees for the BAF will be \$6 million; for EAF, \$4 million; and for HHF, the health one, \$3 million. By and large they decrease over the next few years as the funds decrease.

Senator RYAN—As we heard from Mr Costello, most of the funds in these funds are kept in cash—they are very liquid. Where are interest, dividends or earnings from the funds accounted?

Dr Feeney—They are returned into the Nation Building Fund. That is what generates an increase over time.

Senator RYAN—Can you also provide me with expected interest and earnings over the next four years for those funds, on notice?

Dr Feeney—By each year, or in total?

Senator RYAN—By each year.

Dr Feeney—I have it here, although it is probably easier on notice.

Senator RYAN—How many staff do you have working on nation building funds, or is it just part of your unit.

Dr Feeney—My branch is responsible for: the Future Fund, governance, nation building funds, and sovereign wealth fund issues generally. There are 12 or 13 people in that branch.

Senator RYAN—As the funds decline over the forward estimates period, do you expect to need fewer people in your group to work on them?

Dr Feeney—Over time there is less work on the nation building funds. Obviously in four years time, unless there is more money put in, or any further commitments, there will be less work. But, primarily, the work is policy related so a lot of that stuff will still exist in relation to governance of the funds and the Future Fund. In four years time the branch complement might need to reduce by a small amount, two or so.

Senator RYAN—Sure. That is all I have. If you can provide me with all the projects to come out of each of the funds, and those over the next four years, including timing and cost, that would be much appreciated.

CHAIR—If there are no more questions for program 1.3, gentlemen you may go. Thank you. We are now up to outcome to 2, Improved and more efficient government operations. We will jump straight to outcome 2.1. Senator Xenophon has some questions.

Senator XENOPHON—Mr Tune, I have been approached by a number of former ABC journalists in relation to issues of superannuation. Is the department aware of concerns raised by journalists regarding the information given to them by the ABC about their eligibility to join the Commonwealth Superannuation Scheme in the 1970s?

Mr Tune—Yes, we are aware of the issue.

Senator XENOPHON—I understand some claims regarding this issue are being investigated by the department. Is that the case?

Mr Tune—Yes.

Senator XENOPHON—What plans does the department have in place to investigate the broader issue of misleading information being provided to employees during this time?

Ms Mason—Mr Smith can assist you with that question.

Mr Smith—I work for the Insurance Risk Management Branch, which is responsible for handling the Cornwell type claims. We have a process in place where we have a questionnaire that claimants can fill in. We then assess those in accordance with the legal services' direction and make decisions around that.

Senator XENOPHON—In relation to that, has the department been proactive in contacting and tracking down those ABC employees who worked with the ABC in the seventies who may have suffered loss as a result of not being given the correct information, or being given misleading information?

Mr Smith—At the time of handing down the Cornwell claim there were numerous media articles and various agencies also published things. We have had information available on our website since then, so we have not actively targeted individuals to identify people, but we have had a lot of information disseminated around. Unions were also aware of the outcome, so we feel that that has provided a lot of information to the public.

Senator XENOPHON—Can you indicate, and you may wish to take this on notice, how many claims have been lodged with you by former ABC employees of the 1970s?

Mr Smith—I would have to take the exact number on notice, but I think about 16 claims have been lodged.

Mr Tune—There were 16 claims from former ABC journalists. Seven claims have been closed on the basis of no evidence of negligent misstatement. Four claims are still being worked on. Two claims are still being investigated. Three claims are outside the statute of limitations period of six years. Those that are outside the statute of limitations are being considered for act of grace payments, under the FMA Act.

Senator XENOPHON—Act of grace determinations have not been made yet?

Mr Tune—That is correct.

Senator XENOPHON—Has the department assessed what the potential liability is—how many employees of the ABC at the time could potentially have a claim about negligent statements?

Mr Tune—No, we have not done that because it really depends on individual circumstances. It is difficult to blanket a number. It does rely on the various circumstances of those people to determine whether a claim is valid or not.

Senator XENOPHON—Presumably some work has been done with the ABC in relation to this. Are you able to say whether the ABC could contact those employees at the time, to notify them of their potential rights?

Mr Tune—I think that would be a question for the ABC.

Senator XENOPHON—What measures does the department have in place to ensure that current employees of government agencies are provided with correct information on access to superannuation schemes and their entitlements? I appreciate this was an unusual case but, given what occurred, are there steps in place to ensure that that sort of thing does not happen again, particularly in relation to negligent or misleading statements?

Ms Mason—The provision of information to staff of various agencies is really a matter for the agencies concerned, particularly to make sure that new staff coming on board are informed of their terms and conditions of employment and access to superannuation.

Senator XENOPHON—Presumably there would be a consistent government policy in relation to that, wouldn't there? There would be benchmarks to ensure accuracy and consistency of information regarding the access of and entitlement to superannuation payments.

Ms Mason—All agencies giving information to their staff should ensure that that information is accurate, whether it relates to superannuation or other terms and conditions of employment.

Senator XENOPHON—In relation to the Cornwell case, were there any changes in the way information was given to Commonwealth employees about their entitlements to superannuation? In other words, as a result of that decision were there any changes in the way things were done?

Mr Tune—We have something on our website around Cornwell and the outcomes of that. It has some information on how people can go about making a claim, if they feel they are eligible. We have done that. I am aware that other agencies put some material out as well, following the Cornwell case, to their own employees, but that is probably the extent of it at the moment.

Senator XENOPHON—Finally in relation to this, I think Mr Smith indicated that there are forms to fill out and some processes to follow. What time frame is there for a claim to be finalised? I know every case may be different, but what sort of time frame is there? One of the concerns that has been put to me by former employees of the ABC at that time is the cost of litigation as they do not have deep pockets to fight these sorts of cases.

Mr Smith—We certainly try we deal with more claims on an administrative basis. Obviously claimants have the right to pursue legal action, but our process to start with is to run through an administrative process, make an assessment and inform them of that assessment, and if they wish to pursue their rights another way after that, that is their entitlement. In terms of time frame, we are proactive in trying to close and finalise claims as quickly as we can. Some of the claims, however, do relate to periods of time that are many, many years ago and access to information is often difficult. So we have to bear that in mind when we are looking at our time frames, but when we get a claim we have some guides to make sure that we are informing the claimants along the way about the progress and making sure that there are no roadblocks. Giving an exact time frame really depends on the circumstances, as to whether it is a simple or a complex claim.

Senator XENOPHON—Given your experience in these matters, what have the time frames been? Have they been three months, six months; what is the average time frame?

Mr Smith—Some claims have been closed within a matter of months and some claims have been closed over a much longer period, up to a couple of years, but it does depend on the complexity of the claim and the information that we get access to.

Senator XENOPHON—What contingencies have been allowed for potential claims? Are you able to tell us what provisions have been allowed in relation to potential ABC claims?

Mr Smith—In terms of financial provisions?

Senator XENOPHON—Yes.

Mr Smith—We do not disclose the financial provisions. They are all paid for out of the ComCover fund provided it was an insured entity. Our actuaries make an assessment each and every year of the total pool that we are required to collect and that includes potential liabilities in the superannuation field.

Senator XENOPHON—Thank you.

CHAIR—Senator Ronaldson, are your questions general questions in outcome 2?

Senator RONALDSON—Yes. My question is about departmental speechwriters or speechwriters on personal staff. Does the department have speechwriters on staff?

Mr Tune—No, we do not.

Senator RONALDSON—None at all?

Mr Tune—No. People, in their normal jobs, may do an outline of a speech or something like that, but we do not have actual speechwriters on deck.

Senator RONALDSON—What about the relevant minister's offices?

Mr Tune—I do not know, but I assume there may be some there.

Senator Sherry—I do not think they are specifically speechwriters and that is all they do, but I am sure the minister's staff write speeches.

Mr Tune—The minister's office has media advisers, obviously.

Senator Sherry—I will have to take that on notice.

Senator RONALDSON—Who writes your speeches, Minister?

Senator Sherry—A combination; we often get notes from the department, contribution from many of my staff and myself. We merge together spectacularly good speeches that I would urge you to read, Senator Ronaldson. It is the great combined effort.

Senator RONALDSON—Can I take that on notice?

Senator Sherry—Yes, you can report back to me at the next estimates. I will table them all, if you like.

Senator RONALDSON—Please take that on notice and see whether there are speechwriters on staff, how many and their MOPS levels. I turn to contract notice CN263839.

Mr Tune—Could you tell us a bit more about it, please?

Senator RONALDSON—I thought we had the notices there and magically they appeared. This is a contract notice with the sum of \$49,281.80 for the Interaction Consulting Group from 16 February 2010 to 31 January 2011 for something called 'writing speeches'. The full description is 'delivery of "writing speeches"'.
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Ms Mason—We will just get the right person to assist you with that.

Senator RONALDSON—I know there are people listening so can I also get someone to start looking up CN259510, CN259517, CN259501, CN259508 and finally, CN259520? I suppose while we are at it—and I am jumping well ahead here but it might just be useful—answers to questions on notice 1669 and 1670 dated 12 August 2009? And answers to questions on notice—no, leave that, I think we can get through without that. I am sure you would be prepared to take at face value what I am going to say about those because I am not asking questions about them specifically.

Mr Tune—The first one was 839, is that right—Interactions Consulting Group?

Senator RONALDSON—263839, yes.

Mr Tune—Yes.

Ms Mason—I think we will have to take that on notice and find out the background to that particular consultancy.

Senator RONALDSON—There is no-one present who has got any knowledge of that at all?

Ms Mason—Of that particular one, at the moment, no. If it comes to hand during the hearing I will provide you with the answer but not on that one. Perhaps we can try and help with some of the others.

Senator RONALDSON—You will take on notice whether that is a seminar or a training course. If you have not got that there is probably not much more I can do about it. Is the hour of the night why people are not here? I am not reflecting on the fact that you have not got it now but normally there always seems to be someone who has details of these contracts.

Ms Mason—We have somebody here who has a list of the consultancies but probably with no more information than you provided on that particular one. The officer who deals with learning and development would need to check the background to that to check whether it is a training course. It sounds like it would be but rather than speculate I would rather get the correct information.

Senator RONALDSON—Okay, if you can take all that on notice.

Ms Mason—Again I am speculating and I probably shouldn't, but it could be a training course for MOPS Act employees rather than departmental employees because there are some professional development programs offered to MOPS Act employees which could include speechwriting as one of those.

Senator JACINTA COLLINS—I think the recent one did.

Ms Mason—Please let us check that for you.

Senator RONALDSON—That would also be directed through the department, would it?

Ms Mason—Yes.

Senator RONALDSON—In these contracts—CN259510, CN259517, CN259501 and CN259508—the CN259510 has the sum of \$79,000. There is \$100,000 in CN259517, which I note with interest that the supplier is the Australian Taxation Office. The next one is CN259501, which is for \$499,998.99; and CN259508, which is for \$316,600. The total of these, I understand, is \$995,599—and they all, of course, involve contractor services for telecommunications procurement. The first one is contractor services for implementing telecommunications procurement and the second one, involving SMS Consulting, is similar. The third one, with the Reveal Group, is a contract to implement coordinated telecommunications procurement. The next one, again, is advice on government telecommunications arrangements, which I presume is to do with the same project. Is that correct?

Mr Tune—These sound like they relate to the coordinator procurement work we are doing on telecommunications service. John Sheridan, from AGIMO, can probably take you through those one by one.

Mr Sheridan—The first contract you mentioned, with SMS, and that range of other contracts, are all to support the work in the coordinated telecommunications procurement area. They are providing specialist support to the public servant team that is conducting the scoping studies and then the actual procurement of telecommunications.

Senator RONALDSON—Can you just expand on that for me, please?

Mr Sheridan—Each of the coordinated procurements we have undertaken have been—

Senator RONALDSON—What is the nature and extent of the telecommunications procurement?

Mr Sheridan—Telecommunications expenditure across government is about \$370 million a year. There are four coordinated procurement activities planned in the telecommunications space. The first deals with internet based network connections—that is, the connection largely of data through the internet. The second deals with invoice reconciliation services—a panel to make sure agencies get the best value from their telecommunications contracts. The third is for commodities—and the first commodity activity which is out for RFT at the moment is for mobile phone handsets and carriage. The fourth telecommunications contract is for operational management services, and the draft RFT for that contract is currently on the AGIMO blog.

Senator RONALDSON—Why would you have such a wide range of contractors? Given that they are all roughly the same description, from the contract, why do we have SMS, the Reveal Group—I will ask you to deal with the ATO separately—then Reveal Group again. Phillips Fox lawyers is obviously a separate matter. But why this broad range of contractors?

Mr Sheridan—The Reveal Group provided the original work on the scoping study that allowed us to understand where savings could be made in coordinate procurement of telecommunications. The lawyers involved provide legal expertise on the contracting arrangements and the tendering arrangements, and probity advice across those contracts. SMS provide management staff to assist us in project management areas. The nature of these procurements is essentially a large amount of upfront project management activity, the conduct of tendering and similar activities and then a wind-down to business as usual. So, obviously, we do not need those contractors over a long time, but we do need them to get the initial work done.

Senator RONALDSON—That \$79,000 contract with Reveal was the original scoping work, was it?

Mr Sheridan—In fact, the \$79,000 would have been ongoing work after the original scoping study was completed—some technical work in putting together the requests for proposal, in that particular case, for internet based internet connections.

Senator RONALDSON—I take from that that that was a finish-off contract, but the larger contract was actually let on the same day? It was for \$316,000.

Mr Sheridan—I do not have the detail ‘316,000’ here. I would have to take that on notice. But we have used Reveal for a range of these activities.

Senator RONALDSON—And what were the ATO, for the sum of \$100,000, providing for you?

Mr Sheridan—I do not have the detail with me but I believe that is for the seconding of an ATO officer to work with us on some of this detail, so essentially that is the ATO invoicing us for the cost of that staff member.

Senator RONALDSON—That is a six-month secondment. That seems to be a large sum of money for six months. What level would that be?

Mr Sheridan—The officer in question is an EL2. It would cover the full cost of an EL2.

Senator RONALDSON—It would be pretty hard to get something out of the tax department for nothing.

Senator Sherry—No.

Senator RONALDSON—You have got a conflict of interest.

Senator Sherry—Yes, I have.

Senator RONALDSON—You have a significant conflict of interest. Forget that, Mr Sheridan. What is the answer to my question?

Mr Sheridan—That would represent the full cost of the EL2.

Mr Tune—Salary plus overheads.

Senator RONALDSON—Phillips Fox were providing the legal advice in relation to the procurement program, were they?

Mr Sheridan—It would be either the legal advice or the probity advice. It depends on which contract it is.

Senator RONALDSON—Last year and this year Senator Minchin placed a number of items on notice in relation to Google expenditure. I do not know whether you remember those, Mr Tune

Mr Tune—I do not personally.

Senator RONALDSON—Is there someone present who would know? Otherwise I might have to go back through it all. I would be surprised if there were not someone who did have some knowledge of this matter.

Ms Mason—Whilst we are checking, I can confirm that the Interaction Consulting Group contract that you referred to earlier was in fact for MOPS Act employees training.

Senator RONALDSON—That is fine. Thanks for that.

Mr Tune—We are just chasing the right person to come in on the Google questioning, Senator.

Senator RONALDSON—Thank you. While you are doing that, I will go to this. There was an article in the *Sunday Herald Sun* on 14 February, which I am happy to provide for you, that referred to—

CHAIR—If I could clarify that, Senator Ronaldson: are you going to give the minister a copy of that or do you want the committee to consider tabling it?

Senator RONALDSON—It is really for the minister's benefit but if the committee members want to have a look at it—

CHAIR—We will give a copy to the minister.

Senator RONALDSON—We may as well table it, thank you.

CHAIR—I will put to the committee if it wishes to have the document tabled. As there is no objection, it has been agreed that the document will be tabled.

Senator RONALDSON—The lead paragraph of the article said:

THE RUDD Government has spent more than \$5 million on taxpayer-funded internet advertisements promoting its spending programs.

This program included purchases as to thousands of internet search terms entered during an online Google search and which would direct the user to Rudd government web advertisements. In the answers to Senate questions on notice Nos 1669 and 1670, the following examples were revealed. The Department of Resources, Energy and Tourism spent over \$1.6 million on so-called search engine marketing. In answer to questions on notice Nos 1649 to 1651, 1677 and 1682, the Department of Employment and Workplace Relations spent approximately \$99,454. In the answer to question on notice No. 1662, the Department of Broadband, Communications and the Digital Economy had \$185,000. The answers to questions on notice Nos 1652, 1672, 1673 and 1680 show Treasury spending of around \$800,411 on search engine marketing support of the Rudd government's tax bonus payment, education tax refund, tax evasion, Goggle ad words project and the first home savers plan. Has anyone got any knowledge of these for starters?

Mr Tune—I certainly do not. They all sound like they were done by other agencies.

Senator RONALDSON—They were questions that were on notice and directed, I gather, through this department. Minister, can you take on notice, please, whether any of those Google contracts are still running.

Senator Sherry—If it is a departmental responsibility they would be the ones who would have the information. Whether or not we are able to provide that centrally or in a coordinated fashion I am not sure.

Senator RONALDSON—I am actually giving you some background. Sorry, I do not need you to provide further information. I just need to put some context into the question that I am about to ask you unless someone wants to make any other comments in the meantime. Minister, on Monday—and you have taken on notice whether any of these Google contracts are still running—with your colleague Senator Conroy there was discussion about Google. I will quote this, and I am happy to table this as well. It was on page ECA113.

Senator Sherry—This is the *Hansard* of the committee hearing?

Senator RONALDSON—Yes, it is. It says:

Senator Conroy—... This is a company that says ‘do no evil’, but tries to pretend that it is not motivated by profit and that it knows best and ‘you can trust us’ when it comes to privacy. Unfortunately there are no safeguards. You are dealing with company policy ...

Senator LUDLAM—Terrible!

Senator Conroy—They consider themselves to be above government. They consider that they are the appropriate people to make the decisions about people’s privacy data, that they are perfectly entitled to drive the streets and collect private information by photographing over fences and collecting data/information. This is probably the single greatest breach in history of privacy. That is why so many governments around the world have reacted in the way they have to a company like Google.

Minister, in light of those comments by Senator Conroy and his attack on Google in relation to this breach of privacy, will the government now withdraw any further advertising from Google? That is in light of the minister’s commentary and in terms of any ongoing internet search term contracts that any departments might have.

Senator Sherry—Senator Conroy, as you have indicated in the quote, was obviously referring to one aspect of the behaviour that he was concerned about, one aspect of Google’s operation. That does not necessarily mean that the other aspects of the Google advertising can be similarly critiqued. We will find out the details and justification for the Google ads—what their purpose was et cetera. But I must confess I have a very limited knowledge of Google and their activities. I am not as sophisticated and knowledgeable as Senator Conroy is about IT issues, so I could not go beyond that sort of observation.

Senator RONALDSON—It is advertising, or sponsored links, on search engines. I reluctantly express a similar lack of knowledge to yours, Minister, but I suspect there are some younger members sitting at the table today who perhaps have a greater knowledge—perhaps some older ones as well.

Senator RYAN—It is called a computer, Senator Ronaldson.

Senator RONALDSON—A computer! Right. Thank you, Senator Ryan.

Senator Sherry—I notice you have not got one in front of you but Senator Ryan has. You notice in question time I do not have one in front of me but Senator Conroy has.

Senator RONALDSON—You and I are far too busy, of course, to have them in question time. I have, I think it is fair to say, had mine here every day. It does not mean that I am operating it terribly efficiently but it has certainly been here.

So this is advertising, or sponsored links, on search engines. A very substantial amount of money has been spent. The question basically revolves around: what are the total costs to the department, or the costs to date if the expense is ongoing, of each website advertisement and/or sponsored link? I cannot imagine a more significant summary or commentary on an organisation than that they have committed ‘the single greatest breach in history of privacy’. Minister, I am sure you would agree with me that is a very significant statement.

Senator Sherry—The discussion, debate, questions and answers occurred, presumably, at the communications estimates hearings with Senator Conroy. I do not see how it is relevant to Finance.

Senator RONALDSON—The quote from *Hansard* was in relation to some issues that Senator Conroy raised that were totally unrelated to this matter, obviously.

Senator Sherry—Yes. That is why we cannot comment about Senator Conroy's observations about or critique of Google. The Google ads are a separate issue. Whether or not we can provide some sort of coordinated figures, justification or reasons for the Google ads being placed by a range of departments when we suspect it is the departments' responsibility to get a response—I really am struggling to see our relevance on either the Conroy quotation or the Google ads.

Senator RONALDSON—We have been through the process of the expenditure of that the money and people will have made a value judgment in light of the matters raised in the media about whether it has been a good spend or a bad spend. I think it has been a bad spend; you will say it has been a good spend. That is fine. But the issue here is that I want to know if an organisation is still receiving significant taxpayer funds to support their activities, which enables them, according to your ministerial colleague, Senator Conroy, to commit the single greatest breach of privacy in history. I ask you as a senior member of the Rudd government whether the Rudd government will continue to support an organisation that you view as having perpetrated such a heinous crime.

Senator Sherry—I really do not see it as an issue for this estimates. We will make what inquiries we can about the purpose, justification, cost-effectiveness et cetera of the Google ads. Senator Conroy has made his concerns known about one aspect of Google. It is obviously in the media; it is on the transcript. Beyond that I cannot comment. I do not know whether any of the officers can.

Mr Tune—No. We have no knowledge of this whatsoever. Really, it is an issue for individual departments, from our point of view.

Senator RONALDSON—It is an issue for the government, Mr Tune. I understand that you, in your capacity as Secretary, do not view it as an issue for the department, but my question is addressed to the minister as a senior member of the Rudd government. Minister, in light of Senator Conroy's comments, do you believe ongoing expenditure with Google is appropriate?

Senator Sherry—Senator Conroy made a criticism of Google and one aspect of its operations. I do not see that as relevant for finance estimates. We have a series of expenditures by other departments, and I notice there does not appear to be anything here by the department of finance. If there were, that would be a directly relevant question.

Mr Tune—We were asked question No. 1660, the answer to which is no, we have not done anything in this area.

Senator RONALDSON—So you do not believe it is appropriate for a general discussion about procurement with finance?

Senator Sherry—Not in this instance. It would obviously be appropriate at the estimates hearing that is relevant to the department that has incurred the expenditure.

Senator RONALDSON—Outcome 2 says 'Improved government administration and operations through systems; policy and advice on procurement; Commonwealth property

management and construction; and government enterprises'. I presume you are not suggesting that we can only ask questions on government enterprises that finance has responsibility for.

Senator Sherry—No.

Senator RONALDSON—I am sure you are not suggesting that Commonwealth property management is only in relation to Commonwealth properties that finance has responsibility for.

Mr Tune—We are happy to take this on notice and try and pull all of this together for you.

Senator RONALDSON—For future reference, we are not trying to refine the aspects of outcome 2 down to just a department-specific approach.

Mr Tune—No, we are not. We have an overall responsibility—I accept that.

Senator RONALDSON—Thank you. I want to go to a government administration issue. Minister, are you familiar with the website bewartakecare.nsw.gov.au/home?

Senator Sherry—I have already confessed my relatively limited knowledge of these areas. No, I am not aware of it.

Senator RONALDSON—In what I view as a remarkable approach by the New South Wales government, WorkCover in New South Wales, under the transparent guise of a so-called worker safety program, this website, which was funded by New South Wales taxpayers, has what can only be described as a remarkable advertisement for the Rudd government's BER program. I will seek to table these advertisements. There is specific reference to the BER program.

Senator Sherry—I think you are going to government advertising. We will be dealing with that tomorrow.

Senator RONALDSON—At this hour of the night I will not debate that particular issue. But no, I do not think it is; it is actually government administration.

Senator Sherry—I was just trying to be helpful. I will just have to take it on notice. It may be that Senator Ludwig has greater knowledge of this than I do.

Senator JACINTA COLLINS—Could we have that address again.

Senator RONALDSON—It is bewartakecare.nsw.gov.au/home.

CHAIR—Is this something that is provided by the New South Wales government?

Senator RONALDSON—Yes.

CHAIR—I just want to clarify what it has to do with budget estimates.

Senator Sherry—I might be a bit weary at this time of night, but I am sitting in the Commonwealth parliament's estimates not the New South Wales parliament's estimates.

Senator RYAN—I believe AGIMO oversees all 'gov.au' domain names.

Mr Sheridan—That is correct.

Senator RYAN—So 'nsw.gov.au' is a subdomain of 'gov.au' and therefore has some relation to AGIMO.

Senator RONALDSON—That reinforces the point I made before.

CHAIR—Can we get clarification on that.

Mr Sheridan—We are responsible for the domain name policy that covers the ‘gov.au’ domain. That is a third-level domain. The state domains, the fourth-level domains—in this case ‘nsw.gov.au’—follow the policy that we have established but are also subject to additional policies, if required, at the state level. The actual control of that name will be in the state-level domain.

Senator RONALDSON—Minister, I hope you have learnt something tonight in relation to these domain names!

Senator Sherry—I am not sure I have. It is very confusing.

Senator JACINTA COLLINS—What are the first and second levels?

Senator Sherry—I think I had better take the whole thing on notice and get some expert advice.

Senator RONALDSON—It is not quite as easy as that. It is not quite as simple as that.

CHAIR—Can we have some clarification of the first and second levels. This is all new to the committee.

Mr Sheridan—The first level is something that ends in ‘au’, which is the country domain. The second level is something that ends in ‘gov.au’—that is, government—or ‘com.au’, which is business. The third-level domain is ‘something.gov.au’—that might be ‘finance.gov.au’ or ‘nsw.gov.au’. A fourth-level name would be ‘something.thisexample.nsw.gov.au’.

CHAIR—What responsibility does the Commonwealth have over what a state government does in terms of that fourth level?

Mr Sheridan—The fourth level domain rules are subject to the level that we have control over but they can impose additional rules or policies at their level.

Senator JACINTA COLLINS—So you only have control over level 3?

Senator RYAN—The AGIMO policies are binding upon the state governments to go to the fourth-level domain names.

Mr Sheridan—That is my understanding.

Senator RYAN—I am just trying to explain it. This means any website that is ‘nsw.gov.au’ has to abide by AGIMO’s policies. I think that allows Senator Ronaldson to raise his question.

Mr Tune—It also has its own role, doesn’t it? What I am hearing from Mr Sheridan is that it has its own policies on top of that.

Senator RYAN—Exactly.

CHAIR—Senator Ronaldson, perhaps you could put your question. We might all then be enlightened and see whether we have any opportunity of answering your question.

Senator RONALDSON—I have got some really bad news. My question has got absolutely nothing to do with what has been discussed over the last five minutes—not a thing. But Senator Ryan’s very useful intervention has provided me with the link to raise this matter.

CHAIR—Have you got a question?

Senator Sherry—Let us have the question.

Senator RONALDSON—Sorry, I thought everybody wanted to stay a bit longer. That is why I am trying to drag is out. If that is not so, then I will move on. Has there been any communication or coordination between the department and the New South Wales government relating to this advertising? Has there been any funding provided by the Commonwealth to the New South Wales government with this link? Has there been any discussion, in writing or verbally, or any contractual arrangement in relation to the placement of BER material onto the ‘beware take care’ website, which in my view is totally unrelated?

Mr Tune—We will take that on notice. We are certainly not aware of anything. If there were a link, it would be through DEEWR, so the question is probably best addressed to them. But we will ask them and see what we can find out for you.

Senator RONALDSON—Thank you very much. I have only about 10 or 11 questions left, so I will try and get through them. I assume that we can discuss the administration of advertising at this time, but when it comes to specific advertising campaigns, you want to wait until tomorrow. Is that where we are at?

CHAIR—Senator Ronaldson, as you are very much aware, we are dealing with the procurement framework advertising only tomorrow morning at 10 am with Minister Ludwig.

Senator RONALDSON—That is in relation to both the policy principle and the policy outcome of particular campaigns?

CHAIR—Yes, it is. All those officers will be here tomorrow, as we have discussed with you on at least two occasions during these estimates.

Senator RONALDSON—On that basis, I have no further questions.

CHAIR—Thank you, Senator Ronaldson. Senator Ryan, are we still dealing with outcome 2?

Senator RYAN—We are dealing with outcome 2.1. I would like to talk about the Gershon review and the information and communication technology Business as Usual investment fund. Budget Paper No. 2 outlines that \$113 million has been drawn from the ICTBAU investment fund to fund various IT projects, including across various government agencies and departments. How will this be undertaken? Are the funds provided to agencies in a single amount?

Mr Tune—Not necessarily. They may be provided over a period of years, depending on the project.

Senator RYAN—I have not looked at the communications portfolio budget statement; is there somewhere where those funds are broken down by department and year? Would that be in the communications PBS?

Mr Tune—Minister Tanner put out a press release a couple of days ago which had all the detail there. It was on 18 May.

Senator RYAN—Can I get a copy of that?

Mr Tune—Yes.

Senator RYAN—Are agencies, as part of this—and this could be in the press release—required to provide status reports of the process?

Mr Tune—On progress against implementation? Yes, they are. They are responsible to a group called the secretaries ICT board, which I chair, and which has overall carriage of monitoring the implementation of these measures. Most of these measures are intended to be a reinvestment to degenerate further efficiencies so the role of the board is to make sure those efficiencies are achieved over a period of time.

Senator RYAN—Who comprises the ICT secretaries board? Is that all the secretaries?

Mr Tune—No, not all of them, just a component. It is chaired by me. It comprises the secretary of the Department of Human Services, the head of Geoscience Australia, the head of Australian Customs, the Australian Commissioner of Taxation, and the deputy secretary, governance from PM&C. I think I have got all of them.

Senator RYAN—If there are any more feel free to let us know. Do you then report to the Minister for Finance and Deregulation on progress?

Mr Tune—Yes, we do. And in some cases we will report through to a cabinet committee as well.

Senator RYAN—What happens if a project goes over budget?

Mr Tune—There is no more budget from us, basically. If they need to fund it further they will need to fund it internally from their own resources.

Senator RYAN—Are they required to fund it further to complete the project?

Mr Tune—Basically, yes. They have given a commitment to do the project so they need to complete it.

Senator RYAN—And how much remains in the ICT BAU reinvestment fund?

Mr Tune—It is \$271 million, approximately. The savings from the Gershon exercise were a bit over \$1 billion and the commitment was that about half of those savings would be reinvestment through the reinvestment fund. To date we have spent about \$231 million over rounds one and two. That leaves about \$271 million to go.

Senator RYAN—Is the \$271 million—to use the vernacular—all there at the moment or is some of it coming in over the estimates period?

Mr Tune—That is spread over the forward estimates period.

Senator RYAN—Could you provide me, on notice, an update of how much is coming into the fund over the estimates period?

Mr Tune—Yes, we certainly can.

Mr Sheridan—In 2010-11 there is \$39.7 million left to be expended; in 2011-12 there is \$117.9 million; and in 2012-13 there is \$113.5 million. That totals \$271 million.

Senator RYAN—There is nothing in 2013-14?

Mr Sheridan—No.

Senator RYAN—That is all I have. Thank you.

Senator KROGER—I would like to follow up a matter which Senator Abetz raised at last estimates in relation to contracts and procurement. Can you update us on the progress and what is happening with making government contracts and procurement simpler for the not-for-profit sector, small business, local government and the disability area? I have experienced it myself—every area in every department seems to have its own unique way of accountability and performance, which makes it a very costly and complicated process for many of these organisations and institutions. I was wondering whether this was being advanced or in any way being addressed.

Mr Tune—I do recall the discussion with Senator Abetz last time. We went through some of the things we were trying to achieve. I will ask Mr Grant to expand on any progress.

Mr Grant—In terms of standard form contracts, to make it easier to deal with government, and for business to have a fair idea, we now have up on our website, for all accounting services, tender and contract documents. That is the starting point.

We are working on what I call ‘clause bank’ and that is all of the Commonwealth clauses that are needed in either tender documents or contracts. I hope to have it completed within the next four to six months. That will become again, available on our website so that all departments and agencies can use the same standard clauses related to government policies.

You mentioned companies established to employ people with disabilities. We are working with FACSIA—the name of their body just escapes me at the moment—to assist the government purchasers to understand how they can go about buying from businesses established for employing people with disabilities. In addition to that, we have been working, through FACSIA, with those businesses to get them to actually better promote themselves in terms of identifying themselves. They do have a benefit in so far as agencies are not required to adhere to the mandatory procurement procedures. That means that for over \$80,000 you can go directly to a company established for those purposes. We are also linking into a website of those businesses with their capabilities. We are trying to bring about a mesh here of knowledge. We are not forcing their use but we are trying to create a knowledge of those businesses and a knowledge of government needs through AusTender, and bring it together. There is also an expo that is being held on 1 June for businesses with disabilities, at which the disabilities minister is speaking and which agencies will attend. We are participating in that. In terms of Indigenous businesses, we are at an earlier stage but we are doing the same with them. At this stage that is keeping quite a lot of my people quite busy.

We are working with businesses to help them better understand how they can use AusTender to do two things. One is to understand what the government wants to buy. By registering on AusTender they can pick the areas of their interest and they can be informed

when there is a tender going out to market. The second thing is that if they are unsuccessful they can find out who won the tender, at what price, and see whether they are comparable and perhaps use that for a future tender bid. They are the activities that we have in place a present.

Senator KROGER—Briefly, you mentioned that you were establishing standard clauses that you are going to put up within four to six months. You are encouraging agencies to use a similar clause or approach. It is not a requirement across the board?

Mr Grant—Our objective is that agencies use those clauses and that becomes normally use. If there is a need to change them and there is a systemic problem then we would look at it. We will keep an eye on how those clauses are being used and the extent to which they are being used, but part of the feedback from small business and from other businesses is that keeping changing clauses adds cost to doing business with government and we are trying to make that easier. Not all clauses fit every tender or every contract, so trying to run a series of standard contracts or standard tenders we do not think will achieve our desired objective. They will keep getting doctored and we will be back to everyone being different. As I said, we are attempting to see how we go with a standard set of documents and clauses for accounting services because there is a range of different businesses in that area and we are establishing ClauseBank so we start to use standard clauses for those areas which should be standard in government contracts.

[8.56 pm]

CHAIR—We move on to output 2.2, Property and construction.

Senator RYAN—Is the department of finance overseeing the Cocos Islands runway refurbishment project?

Mr Tune—We are.

Senator Sherry—I do not know whether you are aware that we talked about this earlier, not to the extent I suspect of going into detail, but it was acknowledged earlier You may not have been here.

Mr Tune—I think there was a question about an explanation for the slight increase in staff for Finance that was in the budget. Some of that is attributable to the work we are doing on Cocos.

Senator RYAN—Quite right, you did mentioned that. The Attorney-General's Department has been provided with \$7.5 million as part of this as the related expense in 2011-12, 2012-13 and 2013-14. Is that for maintenance?

Mr Tune—Is it in the measures description?

Senator RYAN—I am on page 321 of Budget Paper No. 2.

Mr Tune—I will check for you.

Mr Scott-Murphy—Perhaps I can add a little clarity to this. In the costing for the work on the runway is provision for maintenance going forward. That includes materials and equipment for maintenance.

Senator RYAN—That makes sense. What is the form of the runway upgrade? Is it being expanded for larger planes? Is it being upgraded to a higher standard?

Mr Scott-Murphy—It is extending the economic life of the existing runway by reshaping the surface and resealing the surface and treating some of the taxiways and aprons to extend the life of that runway until a further review is undertaken to determine the merits of extending it perhaps in later years.

Senator RYAN—Was the runway approaching the end of its economic life? Could one describe this as large-scale maintenance?

Mr Scott-Murphy—Yes, there is breaking down of the surface, the wearing course on the runway, and it is starting to shed some of that material and is raising some safety and operational concerns. This work will address that to ensure that it is safe and meets all of the CASA standards over the next three to five years.

Senator RYAN—What is the length of the runway at the moment? Do you know that?

Mr Tune—I think it is very long. That is my technical input.

Mr Scott-Murphy—My recollection, and it is somewhat unreliable, is about 850 metres, but if that is incorrect I will check and confirm.

Senator RYAN—Is the runway effectively used for small and narrow-bodied jets? Does it have that capacity?

Mr Tune—There are commercial services that fly to Cocos—not all that regularly, but they do.

Senator RYAN—Is there currently an examination of whether to expand the runway?

Mr Scott-Murphy—Yes, it is intended in the future to look at both the operational needs and the loading conditions for the runway going forward.

Senator KROGER—An ANAO report has been conducted into the management or mismanagement of DFAT overseas properties. I understand that report was forwarded to the Department of Finance and Deregulation for a review to be conducted. Is that right?

Mr Tune—Yes, that is correct.

Senator KROGER—Has that commenced?

Mr Tune—No, it has not. The government has asked us to do a review of overseas property.

Senator KROGER—When do you believe that will commence? Has there been any undertaking to determine what needs to be done and when it will start?

Mr Tune—It will be done in the course of 2010-11. We are still working through the terms of reference for that—who will conduct it and all those sorts of mechanical things that need to be gone through. But it will certainly be completed in time for the 2011-12 budget.

Senator KROGER—I do not know whether this is the appropriate outcome, and I am happy to take advice on it, but I was wondering whether there was any update on the costings of the construction or redevelopment of Villawood?

Mr Scott-Murphy—Yes, that is one of the projects my division is undertaking.

Senator KROGER—Could you give us some information about that? Is there a figure available?

Mr Scott-Murphy—As to the budgeted cost?

Senator KROGER—Yes.

Mr Scott-Murphy—It is \$186.7 million.

Senator KROGER—That is for the reconstruction?

Mr Scott-Murphy—It is called the redevelopment of the Villawood Immigration Detention Facility. It is a staged redevelopment of that facility, while it is continuing its operation.

Senator KROGER—What does that redevelopment involve?

Mr Scott-Murphy—There are three stages of the redevelopment. There is a secure part of the project, which treats the high-risk detainees. That will be completely redeveloped.

Senator KROGER—Do you mean redeveloped in terms of security or size? Could you please expand on that?

Mr Scott-Murphy—The existing facility, of course, has reached the end of its economic life and this program will bring it up to modern detention standards and provide improved security and improved facilities for the humane treatment of all detainees in Villawood. It is in three stages, as I mentioned. There is a secure stage, a service area in the centre that will improve the medical, educational and recreational facilities and will also improve the processing of detainees as they come through, as well as the visitor centre.

Senator KROGER—Are you aware of any other improvements that have been made at any other detention centres?

Mr Scott-Murphy—Do you mean within Australia?

Senator KROGER—Yes.

Mr Scott-Murphy—I have only read a little about some of the other facilities that the Department of Immigration and Citizenship is delivering, so questions relating to projects other than Christmas Island and Villawood may be better directed to that department.

Senator KROGER—So there have not been improvements made at Curtin, for instance? There are no costings for that?

Mr Tune—There is money allocated in the budget for Curtin, but we are not involved in that one. That is for DIAC; they are controlling that one.

Senator KROGER—Are you aware of any non-government agencies such as churches, Christian groups or not-for-profit organisations receiving payments for accommodating asylum seekers?

Mr Tune—Once again, you would have to talk to DIAC about that. We do not get involved in that side of the running of those centres. In relation to Villawood, we are in a partnership

with DIAC around the construction and redevelopment, as Mr Scott-Murphy said. But that is the extent of our involvement in those issues.

Committee adjourned at 9.05 pm