



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

FINANCE AND PUBLIC ADMINISTRATION LEGISLATION  
COMMITTEE

ESTIMATES

**(Budget Estimates)**

WEDNESDAY, 28 MAY 2003

CANBERRA

BY AUTHORITY OF THE SENATE



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**SENATE**

**FINANCE AND PUBLIC ADMINISTRATION LEGISLATION COMMITTEE**

**Wednesday, 28 May 2003**

**Members:** Senator Mason (*Chair*), Senator Murray (*Deputy Chair*), Senators Brandis, Faulkner, Forshaw and Heffernan

**Senators in attendance:** Senator Mason (*Chair*), Senator Murray (*Deputy Chair*), Senators Abetz, Brandis, Conroy, Faulkner, Forshaw, Lundy, Minchin, Ray, Santoro and Sherry

**Committee met at 9.04 a.m.**

**FINANCE AND ADMINISTRATION PORTFOLIO**

Consideration resumed from 27 May 2003.

**In Attendance**

Senator Abetz, Special Minister of State

Senator Minchin, Minister for Finance and Administration

**Department of Finance and Administration**

**Executive**

Dr Ian Watt, Secretary

Ms Felicity McNeill, Executive Officer

**General**

Mr Lembit Suur, General Manager, Corporate Group

Mr Ian McAuley, Branch Manager, Parliamentary and Corporate Support

Ms Judy Costello, Branch Manager, Strategic Partnerships

Ms Tracy Muddle, Manager, Human Resources

Mr Andrew Kefford, Director, Portfolio Coordination Unit

Mr Sean Giddings, Portfolio Coordination Unit

Ms Louise Butler, Portfolio Coordination Unit

Mr Consul O'Reilly, Portfolio Coordination Unit

Mr John Dalton, Portfolio Coordination Unit

Ms Tanya Vrkic, Portfolio Coordination Unit

Mr Dominic Staun, General Manager, Financial and e-Solutions Group

Ms Kym Partington, Branch Manager, Financial and e-Solutions Group

Mr Nathan Toscan, Executive Officer

**Outcome 1**

Mr Phil Bowen, General Manager, Budget Group

Ms Susan Page, Division Head, Industry, Education and Infrastructure Division

Mr Rob Butterworth, Division Head, Government and Defence Division

Ms Kathryn Campbell, Division Head, Social Welfare Division

Mr Phillip Prior, Division Manager, Budget Coordination and Framework Division

Mr Matthew Flavel, Branch Manager, Budget Coordination Unit

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Mr Arthur Camilleri, Branch Manager, Long Term Budget Policy  
Mr Marcus James, Branch Manager, Budget Framework.  
Mr Ian McPhee, General Manager, Financial Management Group  
Mr Jonathan Hutson, Division Head, Financial Framework Division  
Mr Jim Kerwin, Division Head, Financial Reporting and Cash Management Division  
Mr Simon Ash, Branch Manager, Financial Reporting Branch  
Mr Brett Kaufmann, Branch Manager, Accounting Policy Branch  
Ms Sandra Wilson, Branch Manager, Superannuation Branch  
Mr Geoff Painton, Manager, Superannuation  
Ms Louise Seeber, Branch Manager Superannuation (Financial) Branch  
Mr Michael Culhane, Branch Manager, Finance and Banking  
Mr Marc Mowbray-d' Arbela, Branch Manager, Legislative Review Branch  
Mr Mike Loudon, Branch Manager, Procurement Branch  
Ms Justine Potter, Team Leader, Estimates and Actuals  
Mr Tony Olliffe, Team Leader, GFS Policy and Reporting

**Outcome 2**

Mr Alastair Hodgson, General Manager, Asset Management Group  
Mr David Yarra, Division Manager, Shareholder and Asset Sales Division  
Mr Peter Diddams, Branch Manager, Commercial and Projects  
Mr Phillip Smith, Acting Branch Manager, Commonwealth Shareholder Advisory Unit  
Mr Mark Heazlett, Branch Manager, Commonwealth Shareholder Advisory Unit  
Mr Robin Renwick, Branch Manager, Asset Sales Branch  
Mr Neil Williams, Branch Manager, Asset Sales Branch  
Mr Robert Knapp, Division Manager, Business Services Division  
Mr Barry Jackson, Branch Manager, Major Projects Branch  
Mr Guy Verney, Branch Manager, Special Claims and Land Policy Branch  
Ms Stacie Smith-Macnee, Branch Manager, Insurance and Risk Management Branch  
Mr Michael Pahlow, Branch Manager, Property Management Branch  
Mr Rod Whithear, Branch Manager, Fleet Monitoring Body  
Ms Lisa Rauter, Team Leader, Private Financing Unit  
Ms Simone Pensko, Asset Sales Branch

**Outcome 3**

Ms Jan Mason, General Manager, Ministerial and Parliamentary Services  
Mr John Gavin, Special Adviser  
Ms Kim Clarke, Branch Manager, Entitlements Policy  
Mr Rob Barnes, Branch Manager, Service Centre  
Mr Ken Sweeney, National Manager, COMCAR  
Mr John Edge, Branch Manager, Account Management  
Mr Stephen Taylor, Acting Branch Manager, Legal and Review  
Mr Greg Smith, Ministerial and Parliamentary Services  
Mr Rohan Verco, Ministerial and Parliamentary Services  
Ms Sue Whisker, Ministerial and Parliamentary Services  
Mr Greg Miles, Ministerial and Parliamentary Services  
Ms Kim Baker, Ministerial and Parliamentary Services

Ms Helen Goddard, Ministerial and Parliamentary Services  
Mr Wally Stopp, Ministerial and Parliamentary Services  
Ms Beth Fiedler, Ministerial and Parliamentary Services  
Ms Carolyn Hughes, Ministerial and Parliamentary Services  
Mr Warren Benson, Ministerial and Parliamentary Services  
Mr Paul Way, Ministerial and Parliamentary Services  
Mr Clayton Conquest, Ministerial and Parliamentary Services  
Ms Jane Wagner, Ministerial and Parliamentary Services  
Ms Gillian Mitchell, Ministerial and Parliamentary Services

**Australian Electoral Commission**

Mr Andy Becker, Electoral Commissioner  
Mr Paul Dacey, Deputy Electoral Commissioner  
Mr Tim Pickering, First Assistant Commissioner, Electoral Operations  
Ms Barbara Davis, First Assistant Commissioner, Business Support  
Ms Marie Nelson, Assistant Commissioner, Corporate Services  
Ms Kathy Mitchell, Director, Funding and Disclosure  
Mr Doug Orr, Assistant Commissioner, Elections  
Mr Brien Hallett, Assistant Commissioner, Information, Education and Research  
Mr Andrew Moyes, Assistant Commissioner, Enrolment and Parliamentary Services  
Mr Brad Edgman, Director, Parliamentary and Ministerial  
Ms Val Butterworth, Director, Financial Management

**ComSuper**

Mr Leo Bator, Chief Executive Officer  
Mr Kevin Dent, Chief Finance Officer  
Ms Barbara Wilson, Finance Manager  
Mr Steve Gibbs, Chief Executive Officer  
Ms Sabine Muller-Glissmann, Communications Manager

**Commonwealth Grants Commission**

Mr Malcolm Nicholas, Acting Secretary

**CHAIR**—I declare open this public hearing of the Finance and Public Administration Legislation Committee. On 13 May 2003, the Senate referred to the committee for examination the following documents: particulars of proposed expenditure in respect of the year ending 30 June 2004, [Appropriation Bill \(No. 1\) 2003-04](#); particulars of certain proposed expenditure in respect of the year ending 30 June 2004, [Appropriation Bill \(No. 2\) 2003-04](#); and particulars of proposed expenditure in relation to the parliamentary departments in respect of the year ending 30 June 2004, [Appropriation \(Parliamentary Departments\) Bill \(No. 1\) 2003-04](#). The committee is required to consider these documents insofar as they refer to the portfolios allocated to the committee by the Senate on 13 February 2002 and to report to the Senate on or before 19 June 2003. Agencies which are not listed on the program may have written questions directed to them on notice. The committee has set Thursday, 10 July 2003 as the date for the submission of written answers to questions that are taken on notice.

I remind everyone that this committee is continuing its general oversight of the format of the portfolio budget statements. The committee's report on budget estimates will also consider the adequacy of the PBSs. The hearing today will begin the examination of the Finance and

Administration portfolio, commencing with the Department of Finance and Administration. I propose to proceed by opening with general questions and then calling on the outcomes and outputs in the order listed on the agenda.

I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. I further remind officers that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to the minister. Evidence given to the committee is protected by parliamentary privilege. I also remind everyone that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate.

[9.06 a.m.]

#### **Department of Finance and Administration**

**CHAIR**—I welcome Senator Abetz, the Special Minister of State, representing the Minister for Finance and Administration. The committee welcomes Dr Watt and officers of the department. Senator Abetz, do you wish to make an opening statement?

**Senator Abetz**—I am here from the government and I am here to help.

**CHAIR**—Thank you, Minister. Are there any general questions?

**Senator ROBERT RAY**—I notice, with respect to the construction of the Christmas Island immigration reception and processing centre, that the responsibility is transferred from DIMIA to DOFA. Could I have an explanation as to why it has been transferred?

**Senator Abetz**—I am sure there is a good one somewhere, if that is the case.

**Dr Watt**—Senator, the shorthand explanation is that the expertise, insofar as it resides in the Commonwealth, on the construction of major projects resides in the Department of Finance and Administration. The government decided to draw on that expertise rather than have a project—an important one—constructed in another agency which has less residual expertise.

**Senator ROBERT RAY**—Minister, why did the government therefore initially give the construction to an agency that had insufficient experience to do this?

**Senator Abetz**—I am not sure that that is a question for me to answer.

**Senator ROBERT RAY**—Why not? We have just heard that it has moved from one department to another, and the explanation is that there is greater expertise in this department. Why wouldn't you have given it to the department with the expertise initially rather than the one without the expertise?

**Senator Abetz**—There is a question of expertise and greater expertise. At first it was considered that there was expertise but that it could be enhanced by a department with greater expertise.

**Senator ROBERT RAY**—When was it discovered that DIMIA was not capable of doing this task?



**Dr Watt**—I do not think anyone ever suggested DIMIA were incapable. I think it was simply a matter of concentrating the project where the expertise was greatest.

**Senator Abetz**—Don't verbal us so early.

**Senator ROBERT RAY**—Minister, in the great butchering of the department of admin services and the floating-off of the whole thing, there was a construction aspect within your current department that you said was no longer necessary; it was sold off and got rid of. Is this a resurrection of the department of admin services?

**Dr Watt**—Senator, I don't think that is correct. The Department of Finance and Administration has always retained, through its property group and now its domestic property group, following the change in the AAOs at the end of 2001, responsibility for a number of construction projects in Australia. For example, the department is responsible for the construction of the Adelaide Law Courts, which is the other large program that the Commonwealth currently has on its books.

**Senator ROBERT RAY**—That was given to you directly rather than to Attorney-General's?

**Dr Watt**—That is correct.

**Senator ROBERT RAY**—That raises the question as to why you were not given it directly in the first place.

**Senator Abetz**—I am willing to take that on notice and have a look at it in some detail as to the reason. I am not aware of that prior history.

**Senator ROBERT RAY**—Do I understand that the scope and size of the project has changed?

**Mr Jackson**—That is correct.

**Senator ROBERT RAY**—Could you outline the change?

**Mr Jackson**—The original decision was based on information available at the time and was modelled on the Baxter detention centre, which DIMIA were responsible for delivering. With the passage of time and further investigation it was determined that that model was not as suitable for the Christmas Island facility, and recent events such as fires over the Christmas period and other things like the shift in the type of family mix—single adults, single females units—are such that it was considered appropriate to revisit the type of facility that was being constructed on Christmas Island.

**Senator FAULKNER**—In terms of the policy decisions about size and appropriateness and so forth, it is DIMIA's responsibility, is it? How does that work?

**Mr Jackson**—With respect to the size of it, DIMIA provided substantial input as to the best capacity. With regard to the design of it, again, DIMIA—that will be the managers and eventual owners of the facility—have significant input into ensuring that the final constructed product does reflect their requirements and their needs to provide the services.

**Senator FAULKNER**—When were the changes decided upon?

**Mr Jackson**—It was over an evolving process from the original decision right through to the final decision to amend the final concept of it. It is an evolving process involving DIMIA, design teams, and other people.

**Dr Watt**—The decisions were government decisions about the overall size of the facility.

**Senator FAULKNER**—Yes, but you are still managing the contractual arrangements, aren't you? That is right, isn't it, Dr Watt?

**Dr Watt**—That is correct.

**Senator FAULKNER**—In this case, who is the government contracted with?

**Dr Watt**—Who has the government contracted in terms of construction? Are you looking for the source of advice on the size or are you looking for something different?

**Senator FAULKNER**—You have said there are changes in terms of the size and role of the centre. I am just trying to understand what government agency is driving those changes. Your key role, as the Department of Finance and Administration, is implementation only—that is how I would understand it.

**Dr Watt**—That is correct.

**Senator FAULKNER**—I would assume that there is broader decision making in other agencies about the changes that you have been speaking of.

**Dr Watt**—In terms of the size of the facility, yes, that is correct. The source of the advice on that would be, as Mr Jackson has said, the Department of Immigration and Multicultural and Indigenous Affairs.

**Senator FAULKNER**—Would have been, or is?

**Dr Watt**—Has been, and is.

**Senator FAULKNER**—Are there any other agencies involved in that?

**Mr Jackson**—Not with respect to the actual size of the facility.

**Senator FAULKNER**—Understanding that, how does the interface work between DIMIA and your department in terms of those sorts of issues being communicated and acted upon? I suppose that is what I am trying to understand.

**Mr Jackson**—A simple analogy is that DIMIA are the user of the facility. They will provide us in finance with a user brief, which outlines what their requirements are with regard to facility size and the like. A not dissimilar approach, which Dr Watt touched on before, was the Adelaide law courts where, in that situation, the user group was the jurisdiction—High Court, Family Court, Federal Court and the like. They provide us with a brief that dictates what they need to provide the facilities. That is then translated through a very detailed process of design work—through the architects, engineers, specialist advisers on security, on fire and on electrical—through to the cost planning process to ensure that what is being built is being built within the acknowledged budget.

**Senator FAULKNER**—I wonder, Dr Watt, either in this case or more generally, whether this arm's length approach, which the Department of Finance and Administration finds itself with, leads to some problems given that the policy imperatives are being driven from one

department and, effectively, your department is actioning this with those you might have contracted—or however else you are making decisions.

**Dr Watt**—The policy imperatives and the policy framework in relation to Christmas Island are, of course, set by cabinet. So major decisions on size and configuration have been subject to cabinet consideration, as you would expect. Does the fact that you have an operator in the case of DIMIA—or a ‘user’ in Mr Jackson’s terminology—on the one hand and a constructor in different departments on the other hand cause you major problems? I do not see any reason why it should. Clearly if you have the operator and the constructor in one department that can equally be the source of a very different set of difficulties. We do have a very good working relationship with DIMIA on Christmas Island. There is a joint steering committee with representatives from both DIMIA and the Department of Finance and Administration on it. There is close consultation. As you know, Finance is an agency that works cooperatively with a whole host of government agencies.

**Senator FAULKNER**—I was going to ask you whether there is an IDC.

**Senator ROBERT RAY**—The second mislead of the day.

**Dr Watt**—That is actually not incorrect; we do work, as far as I am concerned, very closely and cooperatively with other government departments.

**Senator ROBERT RAY**—I am sure that is your view, anyway.

**Dr Watt**—It is also correct.

**Senator FAULKNER**—Let us be specific to this instance—and tell me if it is not normal practice. Was the steering committee chaired and led by you as the department responsible for the constructor or by the home department DIMIA?

**Mr Jackson**—The IDC is chaired by a representative from the department of finance.

**Senator FAULKNER**—Are other departments represented on this steering committee?

**Mr Jackson**—There is representation from DIMIA obviously and from the Department of Transport and Regional Services, as Christmas Island comes under their bailiwick so to speak. Environment Australia are represented on it due to the significant issues. The Department of Employment and Workplace Relations are represented on it as required, as are Treasury and PM&C with standing invitations.

**Senator ROBERT RAY**—This project was originally to run for 40 weeks, so on what date of the original program was the facility supposed to be available?

**Mr Jackson**—I could not give you the exact date.

**Senator ROBERT RAY**—I am not going to hold you to a specific date. Can you give me a rough one?

**Mr Jackson**—It was two stages: stage 1 was about December last year and stage 2 was about March this year. I would have to take that on notice if you want the exact dates.

**Senator ROBERT RAY**—So it is not unfair to say that under the original program it would have been up and operating now?

**Mr Jackson**—That is correct—under the original program and under the original design concept as well.

**Senator ROBERT RAY**—It was designated an urgent project under those circumstances, wasn't it?

**Mr Jackson**—I believe at the time the government made that decision, yes.

**Senator ROBERT RAY**—What is the new time frame you are looking at now—either from now until when it is completed or from when the project was first supposed to have started?

**Mr Jackson**—We recently appointed a firm of project managers to assist in the delivery of the project. They were appointed through a competitive tender process. They are currently reviewing the scope of works and preparing a detailed program for the delivery going forward from this point in time. It is anticipated that that report will be completed in four to six weeks, at which time we will be able to give a very definitive answer to that question.

**Senator FAULKNER**—And who are the project managers?

**Mr Jackson**—The project managers are a firm called CMR Consultants Pty Ltd.

**Senator ROBERT RAY**—But you are looking at a period of about three years now, aren't you?

**Mr Jackson**—The project managers will be determining that. I would not want to pre-empt their report and write it for them.

**Senator ROBERT RAY**—Yes, but you would have looked at this. You would have some anticipation.

**Mr Jackson**—I think in the budget there is an identified expenditure over a period of the order of that time.

**Senator ROBERT RAY**—That is where I took it from. So you are anticipating about a three-year project.

**Dr Watt**—It might be a bit less, Senator.

**Senator ROBERT RAY**—It might be a bit.

**Dr Watt**—They say two to three years.

**Senator ROBERT RAY**—It is not urgent anymore, is it? It cannot be described as an urgent project.

**Mr Jackson**—It can still be described as an urgent project; it is just a longer delivery period.

**Senator ROBERT RAY**—It certainly no longer qualifies for exemption under the public works proposals. You will be going to the Public Works Committee with this, won't you?

**Mr Jackson**—The advice we have is that, once an exemption is given under the Public Works Committee Act, that exemption does stand. As such, considerable work has already been undertaken on the project—some \$60-odd million has already been spent. To refer a project halfway through, even if there were the ability to do so, would be a little unusual.

**Senator FAULKNER**—Where did you get that advice from?

**Mr Jackson**—That advice has come through the AGS.

**Senator FAULKNER**—When was it generated?

**Mr Jackson**—That advice has been generated over a period of time—probably in the last three months.

**Senator FAULKNER**—You have talked in a very broad sense about the substance of the advice. Who took the decision to seek legal advice in relation to that exemption? Was that a DOFA decision?

**Mr Jackson**—It was a decision that was taken by officers within DOFA, that is correct, yes.

**Senator ROBERT RAY**—Let me get this right: it would be possible—if you were malevolent, which you are not—to start a project, declare it urgent, say it is going to be done within 40 weeks, get an exemption from the PWC Act, yet all along know that it is going to take three years, and never have to go to the Public Works Committee. That could be a very poor process. Surely, even if legally you are right, you have a moral obligation, given that it is a three-year period, to go back to the Public Works Committee.

**Dr Watt**—I think that is a hypothetical question, Senator.

**Senator ROBERT RAY**—It is a matter of process. I think I can understand if you have a 40-week project and you have some compelling, urgent external pressures—like we had at that period—to get an exemption from the Public Works Committee Act. I have no quibble with that at all. Even though you are more confident, Dr Watt—I cannot have a side bet because you would probably rush the project—I doubt that it will be done in three years, and that means that it should go to the Public Works Committee. You are obliged to. Whether you get a legal opinion from the Government Solicitor's office or whatever, I think you are obliged then to go to the Public Works Committee in these circumstances, as a good department citizen.

**Senator FORSHAW**—Are you aware that other projects on Christmas Island that have been before the Public Works Committee will be completed well before this one?

**Mr Jackson**—I am not. I gather they would be under DOTARS's carriage, so I am not familiar with them.

**Senator FAULKNER**—Isn't the thrust of the legal advice you sought to avoid going to the Public Works Committee? This is the issue, Dr Watt, about the spirit in which this advice was sought. You can understand why someone might jump to that conclusion, can't you? It looks pretty ordinary on the surface of it.

**Dr Watt**—When it was appreciated that the timetable could be a longer one than had initially been anticipated when the 40 weeks were no longer seen as necessary because of the drop in unauthorised arrivals, the department revisited this program generally. We just did not look at the legal issues; we looked at the project as a whole. As part of that, we looked at whether a change was required, for example, to the way we were proceeding under environmental legislation as well as whether a change was required to the Public Works

Committee Act. It was in that general review spirit that the legal advice was sought, not to find what you suggest we were looking for.

**Senator FAULKNER**—I am not suggesting; I am asking. Let us nail down when the legal advice was sought on the Public Works Committee issue. When was the advice sought? That is a process issue for you.

**Mr Jackson**—I do not know the exact date. We could get you an exact date if you would like.

**Senator FAULKNER**—How many advices were sought?

**Mr Jackson**—As I said, advice was sought on a range of issues and that advice came on a number of occasions.

**Senator ROBERT RAY**—Did you get advice on the EPBC Act?

**Mr Jackson**—Yes, we did.

**Senator ROBERT RAY**—Because you had an exemption under that too.

**Dr Watt**—That is the environmental issue I was referring to.

**Mr Jackson**—I believe Environment Australia also had carriage of that and has been seeking advice on it, as part of a raft of issues.

**Senator ROBERT RAY**—So you got exempted from the Public Works Committee Act and from the environment act. In terms of the environment act, was that again on the basis of urgency? When I say ‘you’ I mean the project because it was in DIMIA when these exemptions were sought.

**Mr Jackson**—I understand that, at the time the environmental exemption was sought, it was on the basis of getting significant earthworks completed before the monsoon season. That has actually occurred and so was successful.

**Senator ROBERT RAY**—So there is no further applicability of that section? We can take it off the—

**Mr Jackson**—That is correct.

**Senator ROBERT RAY**—Thank you. One of the reasons I think it should go to the Public Works Committee is that you have altered the design in terms of fires. Haven’t there been a lot of fires and don’t you want to redesign to prevent that?

**Mr Jackson**—The design is at a stage where it is considering the impact of those fires. The design process itself will take some time. It is revisiting all issues with respect to the logistics of building on Christmas Island, the nature of the construction, the accommodation mix and the facilities provided. Is it still the same IRPC? Yes, it is.

**Senator FAULKNER**—But the design issues obviously have not been finalised. Is that what you are saying?

**Mr Jackson**—That is correct.

**Senator FAULKNER**—If it was determined that a project should go to the Public Works Committee, could you explain to me at what stage of the process it would go?

**Mr Jackson**—To use the Adelaide Law Courts as an example, that was at a stage when the concept design, the broad specification and primarily the user brief scenarios had been completed to provide the committee with sufficient information to allow them to judge.

**Senator FAULKNER**—I am trying to understand whether it is at about this stage, where you are up to at the moment, that a decision would go to the Public Works Committee or whether it would be earlier or later.

**Mr Jackson**—It would be later than where we are at the moment.

**Senator FAULKNER**—But you sought advice before this about whether it is appropriate to do so.

**Mr Jackson**—As part of a whole range of things. We were looking at the facility, how it could be designed and at the process time frames.

**Senator FAULKNER**—So even though you would normally go to the Public Works Committee later than the current stage you are up to in terms of the development of the design and so forth, at some earlier stage you sought advice on whether you could get away with not going to the Public Works Committee?

**Dr Watt**—I don't think we sought advice on whether we could get away with it; I think we sought advice on the requirement to go to the Public Works Committee as part of a much broader review of the project. It seemed to me not unreasonable, as part of that review, to seek advice on a whole series of steps that might be down the track.

**Senator ROBERT RAY**—Before we move on from this issue, Dr Watt, you have advice that you are exempt. Do you have to follow that advice or do you have the option of going to the Public Works Committee now this project has gone from 9½ months out to 36 months?

**Dr Watt**—I think that is a matter for the minister rather than for officials.

**Senator ROBERT RAY**—Would you like to refer that to Senator Minchin for some material report and answer back on notice?

**Senator Abetz**—Will do.

**Senator ROBERT RAY**—What was the original budget allocation for this facility? Was it \$215 million? I found it hard to track that figure down.

**Dr Watt**—I do not think it is that hard to track down, Senator. I think that is right.

**Senator ROBERT RAY**—I did not say you would have difficulty tracking it down; I said I had difficulty. They are two entirely different things. But I have got the watch on you! Is it getting harder, Dr Watt?

**Dr Watt**—It has got a lot harder.

**Mr Jackson**—It is across three agencies. The original funding went to DIMIA and to DOTARS—so, I am sorry, it was two agencies. And now there are three agencies involved, because DIMIA still have—

**Senator ROBERT RAY**—Yes, but I am asking about the original budget allocation to this project. I had a memory it was about \$215 million.

**Mr Jackson**—The original funding was \$245.5 million, announced in the 2002-03 budget.

**Senator ROBERT RAY**—Is it true that at the end point of DIMIA's supervision of this project the estimated budget for the project blew out to \$490 million?

**Mr Jackson**—For the current project? No, that is not correct.

**Senator ROBERT RAY**—Not for the project as reduced, but under the original proposal. Let me ask a more simple question. Had there been an increase—we would use the term blow-out, but you can use whatever term you like—in costs, above the \$245 million?

**Mr Jackson**—A number of different designs did have different costs associated with them and some of them were in excess and some less than that currently envisaged.

**Senator ROBERT RAY**—You did let a contract on this, didn't you?

**Mr Jackson**—DIMIA let a contract on this—that is correct.

**Senator ROBERT RAY**—What was the last estimate of that contractor in terms of what the project was going to cost? I understand it was close to \$490 million. Are you saying that is not right?

**Mr Jackson**—I am not aware of the situation whereby that figure was a firm estimate for completion of the facility.

**Senator ROBERT RAY**—Well, what was the firm estimate?

**Dr Watt**—I think, Senator, we might be better if we take this on notice and see if we can get you an answer.

**Senator ROBERT RAY**—Other questions follow from it. That is why I was trying to get an estimate. Are you saying to me, Dr Watt, that there was not a major blow-out that doubled the cost of the project? Are you really saying that to me?

**Dr Watt**—No. What I am saying is that the government has not made public any subsequent figures other than the initial project cost, and I think therefore we should take it on notice.

**Senator ROBERT RAY**—Usually when the chair reads out his missive to departments he points out that we are entitled to seek this information and we are entitled to get it.

**Senator Abetz**—And you will, if it is taken on notice.

**Senator ROBERT RAY**—Except also we were told that this had not been released, Minister. I understand there is often a problem that if accurate information cannot be provided it is preferred to take it on notice, but there seemed to be a qualification there: that also this had not been released. You did say that, didn't you, Dr Watt?

**Dr Watt**—I do not think the government has ever put out another figure on the potential cost of any Christmas Island project, other than what has been in the budget papers.

**Senator ROBERT RAY**—But are you saying to me that the project cost had not blown out?

**Dr Watt**—No, I am not saying the project cost had not blown out. I was not entering into the issue about it being blown out at all. What I was saying was we would see if we could get you an answer on notice.



**Senator ROBERT RAY**—I am trying to establish whether you can give me an answer now, and I suspect you can. I do not want it on notice. If you can get the answer now, I would like it now.

**Senator CONROY**—We will be here all day.

**Dr Watt**—We will have a look at it and see what we can do.

**Senator ROBERT RAY**—Who was given the contract? This was let to tender, wasn't it?

**Mr Jackson**—Yes, that is correct.

**Senator ROBERT RAY**—Who won it?

**Mr Jackson**—The firm that won it, for the tender that was run by DIMIA, was Walter Construction Group.

**Senator ROBERT RAY**—And that contract has been cancelled?

**Mr Jackson**—There has been a deed entered into that will terminate that contract as of 31 May this year.

**Senator ROBERT RAY**—Cancelled and terminated: is there a difference legally?

**Mr Jackson**—Under the terms of the contract, termination is the term that is used in the contract.

**Senator ROBERT RAY**—It has been terminated. So how much money had been spent up to the point at which this contract will be terminated?

**Mr Jackson**—With regard purely to Walter's or to the overall contract?

**Senator ROBERT RAY**—With regard to this firm Walter's—the contract that is going to be terminated.

**Mr Jackson**—With the contract being terminated on 31 May, as such that information is still being collated and there is in the deed of agreement a confidentiality agreement that would prevent that information becoming available.

**Senator ROBERT RAY**—So we won't know how much taxpayers' money has been wasted?

**Dr Watt**—That is an inference, Senator, that I think is incorrect. It is important to note that the money paid out on the termination of the contract with Walter's, by mutual agreement, is for work completed to date.

**Mr Jackson**—That is correct. The contract allows for payment to Walter's for the cost of work to date, reasonable cost of removing their equipment from the site, and any materials ordered. Under the contract there is no allowance for any loss of profit or any other payments under the contract.

**Senator ROBERT RAY**—So why is it confidential? Why would you have a confidentiality clause on money you pay out that is properly paid out for properly completed work? Why can't we know?

**Mr Jackson**—Walter's will be available to participate in the retendering. It is considered that, should this information become available to competitors, it may disadvantage either the Commonwealth or Walter's in their preparation of the—

**Senator ROBERT RAY**—I have asked you for the total spent, not what it was spent on, which I think would reinforce your point.

**Mr Jackson**—It is in accordance with the Attorney-General's directions, legal services directions—that is where the decision has been made to not release this information. The deed is a joint deed signed by the Commonwealth and Walter's and, as such, we would not be in a position to release that information at this point.

**Senator ROBERT RAY**—At this point; what does that mean?

**Mr Jackson**—Until there were no possible ramifications with respect to prejudicing the future tendering processes.

**Senator FAULKNER**—So it is a qualified confidentiality clause, is it?

**Mr Jackson**—No, that qualification was mine and may have been incorrect.

**Senator ROBERT RAY**—Was there a confidentiality clause in the original contract or the one you negotiated in the termination?

**Mr Jackson**—The deed of settlement has a confidentiality clause.

**Senator ROBERT RAY**—So you deliberately put a confidentiality clause in the deed of settlement?

**Dr Watt**—Again, Senator, I am not sure that is the right way to read it.

**Senator CONROY**—They asked for it?

**Mr Jackson**—It was mutually beneficial.

**Senator FAULKNER**—If they did, you can bet your life the government would jump on it.

**Senator ROBERT RAY**—Apart from covering it up, what is the benefit?

**Mr Jackson**—The benefit is, when we run a tender process, to ensure a fair and equitable tender process, to ensure that no party has an unfair advantage over another tenderer, nor to adversely affect the Commonwealth.

**Senator ROBERT RAY**—Employment National would love to hear about all of that.

**Dr Watt**—That needs to be remembered because Walter's will, in all likelihood, be a subsequent tenderer for the revised centre.

**Senator ROBERT RAY**—The reason I asked the question—whether they originally tendered for \$245 million and it blew out to \$490 million—was that I think we have a right to know that someone who is so good at project management, with a 100 per cent increase in costs, is putting in for the tender again. How do you know that won't blow out again? That is my point. Are you entitled to take that into account? Are you entitled to look at their projected costs from the original tender to where they estimated it when you evaluate the new tender they put in, or can you only go on the basis of the tender they actually put in?

**Mr Jackson**—The original tender that was put in by Walter was put in on the basis of a percentage overhead and margin costs. At the time there was a target estimate of what the facility should cost, which was provided by the department of immigration and was consistent with previous decisions. During the design process a number of alternatives were considered. With respect to how we take it forward, we will be going to the marketplace with a completed set of documents, again without pre-empting the project manager's report, we will provide a recommendation on the best way to deliver the project. It is such that the future cost to construct this facility will be determined by an open market tender based on a level of documentation to ensure equal footing and sufficient rigour to guarantee what the outcome of the cost will be. Having said that, construction projects, by their very nature, have some difficulties, particularly in a logistically challenged place such as Christmas Island. However, throughout this process there will be a significant value management process incorporating DIMIA, as the user, and Finance, as the constructor, to ensure that the constraints of the budget are maintained.

**Senator FAULKNER**—As for the contract that you have a deed of agreement to terminate with Walter's, who is the contracting party with Walter's? I know that it is the Commonwealth, but which particularly agency or department is it?

**Mr Jackson**—The original contracting party or agency was DIMIA. When the government made the decision to transfer responsibility to Finance, Finance took on the lead role with that contract.

**Senator FAULKNER**—But the original contract was negotiated with the Walter Construction Group and DIMIA at the time?

**Mr Jackson**—That is correct.

**Senator FAULKNER**—What was the precise date when DOFA inherited this?

**Dr Watt**—It was 18 February 2003.

**Senator ROBERT RAY**—When do you confidently expect this to be operational? You are now in charge of the contract, you have a lot of expertise—as we have had put on the table—in construction and project management—and we are impressed by that—and now I am asking you to tell us when it will be ready to be handed over to DIMIA as an ongoing facility. What date will it be?

**Senator Abetz**—Don't tempt me. It will be same time frame as a certain other government project that you oversaw, Senator Ray.

**Senator ROBERT RAY**—They all came in on time while I oversaw them.

**Senator Abetz**—Really? And on budget no doubt!

**Senator ROBERT RAY**—And on budget—that is correct. Put some alternative view, because they were.

**Senator Abetz**—It is a pity that nobody else believes that, but we will not get sidetracked on this.

**Senator ROBERT RAY**—You had the opportunity, Minister, to sit on this side of the table and ask questions at that stage and you did not do it. Bad luck! It is now my opportunity.

**Senator Abetz**—Yes, I am just looking at other people's records.

**Senator ROBERT RAY**—But not putting any evidence forward, as usual, because there isn't any.

**Senator Abetz**—Just read the *Bulletin* time and time again. All the evidence is there.

**CHAIR**—Gents, the ball is in Dr Watt's court as you have asked a question, Senator Ray.

**Senator ROBERT RAY**—I have, and the minister has gratuitously intervened because they do not want to answer questions, but I actually want that question answered.

**Dr Watt**—There is no intention of not answering the question.

**Senator ROBERT RAY**—I know.

**Dr Watt**—There are two things. Firstly, you were very kind enough to say we had a lot of expertise. I think we have relatively more expertise than elsewhere in the APS.

**Senator ROBERT RAY**—I was quoting a good source.

**Dr Watt**—Secondly, we are looking to have it completed in a bit under three years—between two and three years—as we previously discussed.

**Senator ROBERT RAY**—Yes, but from when? From when you took it over on 18 February or from today?

**Mr Jackson**—As we took it over from 18 February, it would be of the order of 2½ to three years.

**Senator ROBERT RAY**—So 2006 or late 2005?

**Mr Jackson**—That is correct—late 2005 or early 2006.

**Senator ROBERT RAY**—Compared with a project that is supposed to be completed and operating right now under DIMIA—that is fair comment, isn't it?

**Mr Jackson**—It is a different product.

**Dr Watt**—It is a very different product.

**Senator ROBERT RAY**—It is a smaller product now, isn't it? It is one-third of the size smaller. That is fair to say.

**Mr Jackson**—As I said earlier, that was based on a Baxter model, which was a demountable facility.

**Senator ROBERT RAY**—I am not challenging that it is one-third. I think that is a sensible decision. I think it is sensible if you amend the project to take into account fire retardant material and all those other things. I do not challenge any of that. But a project that was at least one-third bigger was supposed to be completed in 40 weeks.

**Dr Watt**—It is a different method of delivery as well.

**Senator ROBERT RAY**—In what sense?

**Dr Watt**—As Mr Jackson previously indicated, the previous project was effectively a construction which involved the Commonwealth bearing all the risk of the project. We were

effectively paying for the cost of construction, plus a margin on top of that. This will be very different.

**Senator FAULKNER**—So now you are putting the spear into the original contract with DIMIA. Fair enough.

**Dr Watt**—No. It was a contract that fitted the need for extreme urgency. That was not an unreasonable contract under the circumstances.

**Senator FAULKNER**—It sounds like you could drive a bus through it from what you are saying.

**Dr Watt**—That is not the point I was making.

**Senator FAULKNER**—It is not the point you meant to make.

**Dr Watt**—No, that is not the point I was making.

**Senator FAULKNER**—But I am sure that is how it will be interpreted by many.

**Senator Abetz**—Stop verballing him.

**Dr Watt**—That is not the point I was making. I was saying that the contract and sharing of risk that suits something you have to complete within a very short period of time is quite different from the contract and sharing of risk that suits something that you can complete over a much longer period of time.

**Senator FAULKNER**—None of the people who drew up the original contract with Walter's are likely to be involved in current negotiations. Is that right?

**Mr Jackson**—That is correct.

**Senator ROBERT RAY**—I said that last question was final, but this is just for guidance from you, Dr Watt.

**Senator Abetz**—Is this the third mislead for the day?

**Senator ROBERT RAY**—Yes, definitely. It is a suckering mislead. But if you want me to go on for another hour on this, I am happy to.

**Senator Abetz**—No.

**Senator ROBERT RAY**—I did not think so. You were going to try to find out what the project cost had blown out to—or whichever terminology you like. Where in the program is the supervision of that? I can come back later in the day, and we might be able to finalise that aspect.

**Dr Watt**—It is outcome 2.

**Senator ROBERT RAY**—Is it 2.12, Projects and contract management?

**Senator FAULKNER**—I always think it is terrific that you guys in all of the departments have to look these things up. It reaffirms my faith in human nature.

**Dr Watt**—It is 2.2.1, Property management. I think it suggests that we might look at a little tighter specification of some of our outputs.

**Senator CONROY**—Feel free not to confine yourself to your department on that.

**Dr Watt**—That is something we are doing anyway, as you know.

**Senator FORSHAW**—Were there provisions in the contract dealing with what would happen in the event of termination of the contract?

**Mr Jackson**—Yes, there were in the original contract signed by DIMIA.

**Senator FORSHAW**—What were they?

**Mr Jackson**—There were a number of scenarios painted. One of which is obviously termination by default by either party. There was also termination through bankruptcy and termination for convenience.

**Senator FORSHAW**—What about in respect of payment for work done et cetera?

**Mr Jackson**—Under each scenario, eligible payments for each particular type of thing were identified—primarily, the payment for work done and, as I touched on before, the cost of removing any materials or materials that had been ordered in good faith.

**Senator FORSHAW**—Why was this other agreement necessary?

**Mr Jackson**—To formalise the nature of the agreement it was considered prudent to wrap up the final settlement and to identify those costs within the contract as being paid.

**Senator MURRAY**—Most of what I wanted to cover has already been covered. Dr Watt, if the JCPAA were to decide to refer the matter to the Public Works Committee, what difficulties might that or might that not cause you?

**Senator FAULKNER**—Better get some more legal advice.

**Senator Abetz**—It is hypothetical.

**Senator MURRAY**—It is for consideration by them, obviously.

**Senator Abetz**—The preliminary advice is that for that decision to be overturned it would require a decision of the parliament, and I have been advised that that would mean both houses.

**Senator MURRAY**—My question really means that the Senate or the JCPAA might like the public works committee to consider the matter, not necessarily to result in a recommendation for overturning the decision to proceed as you have but merely to review the process by which you have avoided the normal route and also review, in more detail than we have been able to today, the depth and nature of how this contract will be let and how it will be managed.

**Senator Abetz**—The advice stands. What I can do is refer it and see if the government is willing to consider the matter further. I am not sure I am in a position to advance the matter any further than I have indicated.

**Senator MURRAY**—And this committee plainly cannot foresee what attitude the public works committee would take.

**Senator CONROY**—I would like to start out by acknowledging a number of the improvements to the level of disclosure in the recent budget papers and other financial reports—in particular the reporting of the consolidated revenue fund—

**Senator Abetz**—It is a pity I cannot do that!

**Senator CONROY**—for the first time since 1997-98; the disclosure of special accounts in agency portfolio budget statements for the first time since 1998-99; compliance with GFS rules, so the government debt is valued at market prices; and the reinstatement of disclosure of administrative expenditure in schedules rather than notes in the agency annual report for 2002-03. Also, there have been a number of other changes contained in the finance minister's orders, which I will come to later. But I wanted to put on the public record that I think, in terms of advancing public transparency and the parliament's being able to look at those budget papers with a lot more confidence and understanding, they are great advances and the department as a whole deserves recognition of that.

**Dr Watt**—Thank you.

**Senator CONROY**—I was wondering, because of something that happened yesterday, if you could explain the circumstances surrounding the misclassification of ATO expenses, as reported in a press release yesterday. Can you confirm that the misclassification has no impact outside of statement 6 and no impact on the budget aggregate as reported in statement 2, including the cash and fiscal balances?

**Dr Watt**—I can certainly confirm that it has no impact on the budget balance—

**Senator CONROY**—Both of them?

**Dr Watt**—Yes. It is simply the issue of the classification between items—and nothing more. Yes, it has no impact outside the functional components of the budget. It is a functional misclassification, and that is only in statement 6, from memory. I think Mr Bowen might be able to tell you a little more about the circumstances surrounding the misclassification.

**Mr Bowen**—It was an error in entry into the accounting system by the Australian Taxation Office which resulted in funds being shown under the fuel and energy function instead of being redirected or allocated to three other functions—family tax benefit and baby bonus, private health insurance rebate and superannuation contribution, and financial and fiscal affairs subfunction. The impact of this is that the fuel and energy function has been inflated by \$888 million in 2003-04, and this is laid out in the minister's press release, which I think has gone out today—

**Senator CONROY**—I have a copy.

**Mr Bowen**—rising to \$1.242 billion in 2006-07. It is just a straight error. It was picked up—

**Senator CONROY**—Can I refer to the press release. In this line item it says 'fuel and energy' and it has an asterisk next to it; the correct figures are the ones in the press release: 3474 for 2002-03, which is obviously not a problem, and 3549?

**Mr Bowen**—The press release has the correct figures.

**Senator CONROY**—They are now substantially reduced from previously.

**Mr Bowen**—Yes.

**Senator CONROY**—So they are all minuses, and the ones that should have increases are the general public services; so those figures that are over the page in the press release have now got increases?

**Mr Bowen**—Yes.

**Senator CONROY**—Health and social security have increases?

**Mr Bowen**—Yes. As Dr Watt said, and as the press release states, there is no impact on any aggregate budget figures, and it is purely in statement 6.

**Senator CONROY**—I have a number of questions on the Australian Submarine Corporation. I note from the DOFA web site that responsibility for the ASC is shared by outcomes 1 and 2. When would it be appropriate to ask questions about the ASC? I prefer to wait until the budget group officials are available during outcome 2, if that is okay.

**Dr Watt**—It better resides in outcome 2. Senator, just on the misclassification issue, it will also be picked up in the monthly statement when it is released, because it affects the current financial year. We will see that the issue is addressed in both the final budget outcome and the MYEFO.

**Senator MURRAY**—Whilst we are dealing with procedural matters, the statements of risks area: where would I pick that up in terms of discussion?

**Dr Watt**—Outcome 1. It depends a little on which risk, but generically they reside in outcome 1.

**Senator MURRAY**—And the Commonwealth Grants Commission?

**Dr Watt**—I think it would be better dealt with under the Grants Commission itself. It is listed for tomorrow.

**Senator CONROY**—I would like to ask about the information reported on the consolidated revenue fund. I note that considerable effort has been required to calculate the balance of the CRF, including seeking additional information from agencies on their own cash holdings and their unrepresented cheques. I welcome the efforts that have been made to restore the consolidated revenue fund and note the constitutional definition of public money in the budget papers. That is a welcome thing. Will this information be published in the budget papers going forward?

**Mr McPhee**—We expect so.

**Dr Watt**—We would not propose to not publish anything we published on the CRF this year in future, so at the very least this baseline goes forward.

**Senator CONROY**—Your answer to question on notice f4 states:

For practical purposes, total Commonwealth general government sector cash, less cash controlled and administered by *Commonwealth Authorities and Companies Act 1997* entities, represents the Consolidated Revenue Fund referred to in Section 81 of the Constitution.

Would you take me through what you mean by ‘for practical purposes’?

**Mr McPhee**—It is really just a caution. The legal definition of the CRF basically refers to all moneys raised or received by the Commonwealth that shall form the consolidated revenue



fund, as you know, under section 81. Technically, that means every dollar received by the Commonwealth is part of the consolidated revenue fund. We believe these figures are very reliable because they are based on agencies' financial statements, which are expected to reflect their cash on an accrual basis, which basically means it is a cash adjusted for un-presented cheques and other cash holdings in advances that the department might have, so it is a very comprehensive measure. The reason we use 'for practical purposes' is that, in accounting, materiality is used as guidance and there are some adjustments at the margin, so there is a slight difference between the accounting interpretation of the CRF and the legal interpretation. Just for caution we say 'for practical purposes' but it is a very good measure of the CRF.

**Senator CONROY**—I understand that the consolidated revenue fund could be presented on a GFS or AAS31 basis. You have presented it, in note 2(a) on page 10-7, on a AAS31 cash basis. Is that right?

**Mr McPhee**—Yes. We could have put it against either statement. We put it against the AAS statement, but we could have put it against the GFS statement as well.

**Senator CONROY**—Could you explain the relationship between the budget, or operating, balance and the cash balance of the consolidated revenue fund? Isn't it the case that the budget balance could equate to the change in the consolidated revenue fund?

**Mr Kerwin**—That is correct, and the information that we have made available in the table, particularly the information referable to the cash balances in agencies, is directly referable—and let us talk about the GFS cash flow statement—to the movement which is the underlying cash type measure. Therefore there is a linkage, as best as we can get it at this point in time, which discloses all of those movements in cash by just going back to the cash flow statement—and similarly on the AAS31.

**Senator CONROY**—So can I confirm that a \$2 billion surplus would translate into a \$2 billion rise in cash held in the consolidated revenue fund?

**Mr Kerwin**—I will answer that by going to the table on page 10-7 of Budget Paper No. 1. We have in the first line the total government sector cash, which is from statement 10. We have, as an offset to that or as a deduction, the CAC agency cash balances and that leaves us with a balance of the consolidated revenue fund. All that we can say in answer to your particular question is that the cash which is referable to the general government sector—not the cash which is referable directly to the CRF, so it is the first one of these—is the one that we can link very clearly to underlying cash, for instance, and other cash flows.

**Senator CONROY**—So, just to confirm what you have said: the cash based calculation would not take account of all unspent appropriations, including notional appropriations under section 31 of the FMA Act.

**Mr Kerwin**—That is correct.

**Senator CONROY**—At note 2(a), page 10-7, is it possible to provide receipts and payments to the consolidated revenue fund as well as the balance at the end of the year?

**Mr Kerwin**—At this particular point in time it is not possible for us to do that. As you understand, we have a disaggregated financial management information system across the

Commonwealth within a particular financial and legal framework. Previously, Finance paid all the bills; Finance no longer does that. Therefore it is not possible for us to get the payments and receipts cash flows.

**Senator CONROY**—Note 2(a) shows that the change in the closing balance between 2002-03 and 2003-04 for the total general government sector equals minus \$161 million. That is right?

**Mr Kerwin**—That is correct.

**Senator CONROY**—Can I just confirm that this equates to the net increase or decrease in cash shown in note 2, 'Reconciliation of cash', on page 10-6, of minus \$162 million.

**Mr Kerwin**—Yes, it does.

**Senator CONROY**—I note that the CAC agency balances are subtracted to determine the balance of the consolidated revenue fund, which is what I think you explained earlier.

**Mr Kerwin**—Yes.

**Senator CONROY**—Can I confirm that the change in the closing balance of the CRF from 2002-03 to 2003-04 equals minus \$29 million, \$39 million, \$49 million and \$54 million over each of the forward years. Is that correct?

**Mr Kerwin**—Just looking at the numbers quickly, that certainly seems to be correct.

**Senator CONROY**—Could you explain what the change in the closing cash balance of the CRF of \$29 million relates to elsewhere in the budget papers?

**Mr Kerwin**—In terms of the information that we have available I cannot give you those explanations. I can only give you explanations for the general government sector. Under the framework that exists at the moment and the accrual based framework, that is where our information systems are.

**Mr McPhee**—If I understood the question, the difference between the cash balances reflected on page 10-7 does articulate back to that table on page 10-4 and therefore you can see all the factors which are moving cash through the year. I just wanted to confirm that. We have gone this way with the CRF to explain the CRF balance because the benefit is that it does link back to some of the earlier budget statements. You will remember that previously we have tackled the CRF issue from the point of view of the official public account. We have come to the view that this is a far superior method because it does link to the other tables.

**Senator CONROY**—I am just trying to track the receipts and payments to the CRF, which I think you said you could not provide at the moment, to match against revenues and expenses to the budget. I am also just trying to construct something so that I can keep track as well.

**Mr McPhee**—The budget papers are prepared on the general government sector basis, so they include some CAC bodies, as you are aware. The issue with the CRF is that it does not include any CAC bodies. So you have got a difference of scope, if you like, between CRF and what is in the general government sector. Traditionally the budget papers have reported on the general government sector, which covers both departments and agencies but CAC bodies as well.

**Senator CONROY**—So that is why, when you say you do not know the receipts and payments—

**Mr McPhee**—That is right. Conceivably, we could go back and do some analysis to get to that position, but it would not lead anywhere. It would be able to be done—

**Senator CONROY**—You would get a balance at the end of the day.

**Mr McPhee**—You would get a balance at the end of the day.

**Senator CONROY**—I am trying to work out how you can achieve a balance without knowing the incomes and outgoings.

**Mr McPhee**—It is because we are picking up the cash figures from agencies' forecasted financial statements. In terms of the material that agencies provide to us, they give us a full set of financial statements and we are extracting the cash figures—because the CRF is focused on cash—out of the CAC bodies' financial statements to deduct it from the general government sector cash to get to the CRF balance.

**Senator MURRAY**—Because they are not audited, those are just mathematical calculations, aren't they? You are not physically verifying those figures.

**Mr McPhee**—We do quality assurance of the information provided by agencies, but they are not subject to audit. They are forecast financial statements.

**Senator MURRAY**—So it is a sample testing.

**Dr Watt**—It is more than a sample. We do use the full set of agency accounts. It is not like we just select some, so it is much more than a sample, but I think the point is that they are estimates.

**Senator MURRAY**—So you are testing them—that is what you are saying.

**Mr McPhee**—Yes. They need to be integrated and reconciled amongst themselves, obviously, as a set of financial statements does. That is one test. The second thing is that we do apply some quality assurance to make sure the figures are reasonable. There is a reasonable level of confidence about the information provided, because they provide the foundation for the budget estimates.

**Dr Watt**—If we did not have the reasonable level of confidence, we would not put it in the budget papers.

**Senator CONROY**—But you used to show us payments to the CRF in the FBO in the aggregate financial statements.

**Mr McPhee**—In years gone by, indeed. That was when the Commonwealth was on a cash basis for accounting.

**Mr Kerwin**—That was when Finance paid the bills.

**Senator CONROY**—What a disaster this has been! But that is no reflection on the people at the table who are trying to clean the mess up. How does the change in the balance of the CRF relate to the GFS budget balance aggregates in statement 2, page 1-2?

**Mr Kerwin**—Page 212 is about the marking to market of debt. Is that the one we are dealing with?

**Senator CONROY**—Statement 2, page 1-2.

**Mr Kerwin**—Can I explain the sort of information we were trying to put before the public by putting this table in. If I take you to—

**Senator CONROY**—I think I mean statement 1. I apologise.

**Dr Watt**—That is why we are having trouble tracking 1-2.

**Senator CONROY**—It is statement 1, page 1-2.

**Mr Kerwin**—In terms of the information that we were trying to put before the readers of these statements, I take you to page 9-6, which is the GFS. The table that you referred to on 1-2 is also about the GFS. Since we are dealing with cash, the connection is in relation to the underlying cash balance. If we look at page 9-6, there is an underlying cash balance down the bottom for 2003-04 of \$2.172 billion. That is the equivalent of the \$2.2 billion underlying cash balance in table 1.

If we move up the table from the \$2.172 billion and come to the minus \$162 million, that is the movement in overall cash, bearing in mind that underlying cash is a subset of the total cash movement. There are some cash movements that are not part of underlying cash, whereas the \$162 million, in an accounting sense, is the total movement in cash. The \$162 million, going back to our table for the CRF, is the movement between the reported balances on the general government sector. We cannot give you a definitive answer in terms of the CRF components' contribution to the underlying cash number. What we can do, however, is simply give you the general government sector contribution.

**Senator MURRAY**—Except it is inaccurate. It does not include the GST cash flows.

**Mr Kerwin**—It does not include GST cash flows, yes.

**Dr Watt**—It does not necessarily make it inaccurate, Senator.

**Senator MURRAY**—It does. It excludes a significant figure.

**Dr Watt**—No. A figure can still be accurate; it is just not an accurate measure of an aggregate that includes GST cash flows.

**Senator MURRAY**—All right; if you are going to be precise, it is not a complete figure.

**Dr Watt**—It is not a complete figure if the figure you seek includes GST cash flows.

**Senator Abetz**—A very important correction.

**Senator CONROY**—Andrew is the only person in the building who still claims the GST as his own; the government have disowned it. Hang in there, Senator Murray!

**Senator MURRAY**—I support the GST.

**Senator CONROY**—That is what I mean: you are the only person in the building who still claims it as your own. They have washed their hands of it.

**Dr Watt**—From my perspective, Senator, most importantly, the government still believes that the GST was never designed to be a Commonwealth tax.

**Senator CONROY**—I just spent 27 hours arguing about it in the Senate.

**Senator Abetz**—If the premiers want to give it back, we will take it. I don't hear the premiers arguing that it ought to be taken off the states.

**Senator CONROY**—If I can run through what you described, to make sure that I have it right at my end: your answer indicates the change in the closing cash balance in the consolidated financial statements between 30 June 2001 and 30 June 2002 equals \$1.052 billion, which is the net decrease in the cash reported in table 9 of the final budget outcome 2001-02, which, adjusted for net cash from operating activities and investments in non-financial assets, equals the deficit of \$1.259 billion reported for 2001-02. That all flows from what you said?

**Mr Kerwin**—You might run that by us again, Senator.

**Senator CONROY**—Your answer indicates the change in the closing cash balance in the consolidated financial statements between 30 June 2001—which think was \$1,179 million—

**Dr Watt**—Which table are you looking at, Senator?

**Senator CONROY**—The consolidated financial statements. This is your answer to question on notice F4. You were describing the general outline before, and I wanted to go to the specifics. So the total figure for the consolidated financial statements between 30 June 2001 and 30 June 2002 equals \$1.052 billion, which is the net decrease in cash reported in table 9 of the FBO 2001-02 which, adjusted for net cash from operating activities and investments in non-financial assets, equals a deficit of \$1.259 billion reported for 2001-02. So that all flows—

**Mr Kerwin**—That is largely correct.

**Senator CONROY**—You outlined the macro, but that is the specific allocation. Despite all your best efforts, you are still estimating the receipts and payments for the CRF?

**Mr Kerwin**—We are in a position to say that we really do not have receipts and payments for the CRF. In terms of the financial management framework that exists at the moment, that sort of information is available at the agency level, through their financial management information systems.

**Senator CONROY**—We hope it is.

**Mr Kerwin**—It would necessarily be there, Senator. It is not available to us as cash flows, because the system we work on is to get completed statements from agencies rather than have total transaction level detail which, as a central agency, we do not get.

**Senator CONROY**—But you used to.

**Mr Kerwin**—As a central agency and in the cash world all transactions were undertaken by Finance.

**Senator CONROY**—Yes, previously.

**Mr Kerwin**—Previously, yes.

**Senator CONROY**—You do not have receipts and payments for the CRF?

**Mr Kerwin**—No, we don't.

**Senator CONROY**—I note that the reconciliation must be derived after the fact, by reference to a number of different documents included in the consolidated financial statements and the FBO, which are published after the financial year end.

**Mr Kerwin**—That is correct.

**Senator CONROY**—Given the importance that is placed on the GFS balance, is it possible to provide a separate note reconciling the projected balance of the CRF and the projected GFS budget balance in the budget papers?

**Mr Kerwin**—If I understand that question correctly, we were trying to do something like that in relation to the note.

**Senator CONROY**—I know.

**Mr Kerwin**—At this point in time we cannot do it, and I am not too sure that we can do it without an enormous amount of effort, going back into the agencies and getting, for instance, the CAC agency details giving different levels of information there.

**Senator CONROY**—So it would be possible; it would just require an enormous amount of effort?

**Mr Kerwin**—Yes.

**Senator CONROY**—Is there a value to that? You have to do a cost-benefit analysis of these things. Is there a value to the information it would provide?

**Mr McPhee**—Given the basis of the accounts now in the general government sector, it is probably not worth the cost and the effort to get to the CRF position through the receipts and payments route. We could have a look at it, if you like.

**Senator CONROY**—I am just seeing whether it is possible, and I would be interested as to whether in your opinion it was a valuable thing to get, given the potential cost and effort you would have to go to in order to get to it.

**Dr Watt**—We are happy to take that on notice.

**Senator CONROY**—I am hunting GFS, CRF and the budget balance. I am trying to find a way to tie them all together so that what we have at the moment makes a little more sense than it has previously. You have made substantial improvements and changes but I am trying to find a way of making sure it all adds up, balances out or equates in some way.

**Mr Kerwin**—If I could make one final comment, the framework that we have nowadays is probably a much broader framework than we had a decade ago, if I can refer to the previous period as that, because we generate reports on a sector basis and, therefore, general government sector is a primary point of reporting. The CRF, in terms of its alignment, is really only with FMA and CAC agencies, so it leaves out an amount of information. In terms of what might drive underlying cash, for instance, and fiscal balance, the FMA agencies have a hand in that as well, and they are a significant portion of that. So the reporting we do has that sector type focus rather than the CRF type focus.

**Senator CONROY**—So that you understand my interest, I just think that there is probably nothing more important to the parliament in terms of accountability than finding out how much is coming into and going out of the CRF. That is the total financial position of the

Commonwealth. From a parliamentary perspective and from the perspective of scrutiny and transparency and all those sorts of things, to me that is the key. That is why I am seeing whether it is possible to drill down a little further without driving what is already an overstretched area completely mad.

**Dr Watt**—We will take that into account. We will look at that subject and come back to you.

**Senator CONROY**—Thank you very much. This information was previously available when you were a central payments agency.

**Mr Kerwin**—It was, Senator, in the cash world.

**Senator CONROY**—And it did leave out CAC previously?

**Mr Kerwin**—Yes, it did—or the equivalent.

**Senator CONROY**—It was possible for you to get your hands on that information previously. I appreciate that it has fallen by the wayside over the last few years and that it may take a fair bit of time to re-establish. I appreciate that you will have a look at it and come back to us.

**Mr Kerwin**—Yes.

**Senator CONROY**—Is it possible to provide a reconciliation between the projected receipts and payments to the CRF to projected GFS budget revenues and expenses of the cash balance before the fact in the budget papers? We were talking about after the fact and then we got into other areas where you just do not have the information. Is it possible to provide that before the fact?

**Mr Kerwin**—We will always have problems, as I have said, in terms of the cash flows. What we are doing at the moment is the best we can do in relation to numbers that you can derive out of sets of statements rather than numbers that you can derive out of transactions. In terms of the processes we go through, there are quite a few quality assurance processes that we put in place and it is only when the statements come together that we are in a position to know what the general government sector position is in the first instance and what the CAC position is as well and then know the cash consequences of that. We cannot, as we could years ago, within a very short space of time at midnight on 30 June—

**Senator CONROY**—A proud boast.

**Mr Kerwin**—this is the story—and people were able to give an idea of the cash balance was and what the CRF position was in relation to that.

**Senator CONROY**—It wasn't that long ago that that boast was made to the public accounts committee. Was that you, Mr Kerwin? Did you appear that day?

**Mr Kerwin**—No.

**Senator CONROY**—I know it wasn't Mr McPhee or Dr Watt.

**Mr Kerwin**—The answer is that it is virtually impossible or very difficult to do that without upending systems across the Commonwealth or putting an impost on agencies and things like that.

**Senator CONROY**—But you have announced a string of changes that should allow you to calculate these numbers into the future.

**Mr Kerwin**—I think I would need to look at that.

**Dr Watt**—We are happy to come back to you with that information.

**Senator CONROY**—I have a couple more questions on this issue and then I can throw it over to you, Senator Murray. Is it possible to provide a reconciliation between the receipts and payments of the ledgers of the CRF—for example, special accounts—to budget revenues and expenses so it is possible to identify the sources of funds for government expenditure?

**Mr McPhee**—I think there is now a requirement in departmental financial statements to disclose where payments are being made out of appropriations into special accounts. That is an enhancement.

**Senator CONROY**—Absolutely.

**Mr McPhee**—So that shows that. But that of course does not show the complete set of receipts of special accounts. The Minister for Finance and Administration has agreed in principle for the consolidated financial statements for this year to include a full list of special accounts. We would need to do some work to confirm a range of things around that but again that is another enhancement in disclosure.

**Senator CONROY**—Sure.

**Mr McPhee**—That will show fully the receipts and payments and balances of special accounts. I think there is now becoming a level of disclosure around special accounts—a much greater level of disclosure than there ever has been.

**ACTING CHAIR**—You should take some credit for that, Senator Conroy.

**Senator CONROY**—I appreciate that, Senator Murray. I note the reconciliation between the CRF and the budget balance for 1998-99 and 2000-01 has not been possible due to the significant amount of work needed to reconcile the official bank account to the cash balance and, in particular, the need to obtain details from agencies of unrepresented cheque information. But I do appreciate the efforts to date by officers of the department and Mr McPhee and your team, and I understand the difficulties with providing further information. I simply note that the financial framework introduced by this government—and that was hailed at the time as the world's best practice—has resulted in the government being unable to report to parliament on the total financial condition of the Commonwealth as defined in the Constitution. But I do not think anyone at this table was responsible for it.

**Senator Abetz**—Enough of the statements. If you have got questions, ask them.

**Senator CONROY**—I was just acknowledging the efforts by the officers at the table to try and get us back to it.

**Mr McPhee**—Perhaps it is worth my pointing out, too, though, that there is a much more comprehensive level of information presented in the budget papers and the accounts, picking up the accrual information, the assets and the liabilities, which were never disclosed in the past. There are some trade-offs.



**Senator CONROY**—On balance, most people are looking at it and saying: ‘What the hell happened there? We got hit by a truck.’ But I appreciate the point you are making.

**Senator MURRAY**—As you know, I have had an interest in the employee liabilities area. If I can take you to 10.2 and 10.3, you will see that in 10.2 the expenses for employees are listed. That large figure in billions drops considerably and is explained at note No. 7. In 10.3, the liabilities of employees rise. I am referring to the estimates year 2003-04. If we turn to the relevant notes, note No. 7 indicates that the primary reason for the drop in overall employee expenses is the item referred to as ‘Other, including superannuation’. Could someone explain to me why there is that drop, when against the year 2002-03 it continues all the way through anyway?

**Mr McPhee**—My understanding is that it reflects the revaluation of the superannuation liability—the triennial review of the superannuation and the additional—

**Senator MURRAY**—But these are expenses.

**Mr McPhee**—These are expenses, but there is a lag effect, if you like, of the actuarial review. It is done every three years and the liability component has to be increased to reflect the increasing liability. So there is expense and a credit. The credit is going to the liability account—

**ACTING CHAIR**—So it is a book expense rather than an actual expense?

**Mr McPhee**—It is a book expense, that is right. It is coming through because the actuary has said that now the liability has increased substantially, and that is flowing through in 2002-03. The out years after that become more like the normal expense line.

**ACTING CHAIR**—So, crudely speaking, it is a drop in the two most immediate years of \$5 billion—

**Mr McPhee**—Yes.

**ACTING CHAIR**—or, what is that—about 40 per cent?

**Dr Watt**—I think the point Mr McPhee is making, if I heard him right, is that it is 2002-03 that is the aberration.

**Mr McPhee**—Yes.

**Dr Watt**—I think we can elaborate on that.

**ACTING CHAIR**—What is 2002-03 to 2001-02 then, if you say 2002-03 is an aberration?

**Mr Painton**—What we have talked about here is a revaluation of the superannuation liability from the start of the 2002-03 year—

**Senator CONROY**—That is the year you want to look at.

**Mr Painton**—Yes.

**Senator CONROY**—That is the one we will be coming to.

**Mr Painton**—In effect, the revaluation for the purposes of accounting standards is treated as an expense in the 2002-03 year; hence, you have the higher expense showing up in that

year, which is a revaluation which feeds into the higher end of year liability and the higher liability in later years.

**Senator MURRAY**—But in all cases—and this is a remark I made earlier—these are book adjustments. The actual effect has not flowed through yet because you would not have registered that against a physical outgoing, would you?

**Dr Watt**—By actual effect, do you mean payments to superannuation?

**Senator MURRAY**—Yes.

**Dr Watt**—The answer is yes—basically, it has not flowed through yet.

**Senator CONROY**—You're welcome to come with me on that frolic.

**Senator MURRAY**—I would be happy to hear you explore it further.

**Senator Abetz**—A frolic sounds like a good description.

**Senator MURRAY**—Going to note 13 on employee liabilities, the liabilities for superannuation do, however, have a consistent grading upwards; in contrast, expenses are erratic. Could you explain why that is so.

**Mr Painton**—Effectively what you have with the unfunded liability or the superannuation liability for the Commonwealth is that it increases to the extent you have expenses—that is, accounting expenses—so they are effectively increases in liability. Coming off the liability is the actual payments being made during the year. The upward trend in the superannuation liability effectively reflects each year that the accruing expenses are somewhat higher than the actual amounts being paid out. You have a base liability at the start of the year, or whatever your liability was at the start of year, then you have estimates of how much that liability increases, say, for an extra year's employment or for other actuarial factors, and then you take off the actual payments that are made during the year given that what is paid out reduces the existing liability.

**Senator MURRAY**—I will have to think about that answer. I am not certain. Turning again to note 13 and looking at some other items there, the committee and the officers would be aware that one of the areas that I have been interested in is leave and other entitlements. I have had the view that government employees have not been taking their leave, that they have been stretched to do their work and that that is a risk both to productivity and to health. I notice that the leave and other entitlements have had quite a modest lift in 2002-03 to 2003-04 and that it does not accelerate that much. Looking at note 7, which shows salaries and wages, again the graded increase is what you expect—a consistent movement. Does this mean that leave and other entitlements across the government sector are starting to be better managed as a percentage and there is a relationship with salary and wages overall? Or is there some other statistical reason for this?

**Mr McPhee**—I can only give you an anecdotal response to that because you really need to understand what is behind these numbers and that it is based on agency advice to us. Certainly in many agencies now through certified agreements and AWA's there is a focus on people not continuing to build large leave credits and agencies requiring people to take leave beyond a certain level. It may be that that is starting to have an impact here. Certainly in years gone by there were no strong controls over people taking leave. I think it is better now.

**Senator MURRAY**—If that is so, it is a desirable outcome. Just to pursue the point in relation to your specific department, if you look at budget related paper No. 1.9, pages 65 onwards, particularly page 67, the employees' expense there is listed in 2002-03 at \$61 million—I am rounding it, obviously—in 2003-04 it is \$71 million, and then onwards it is \$72 million et cetera. If you turn to table 3.2 on page 67, the provisions for employees are listed there—again, I will round it—at \$16.3 million, \$17.5 million and onwards. I did a little calculation as a percentage, and the employee provisions in your department for the year 2002-03 as a percentage of salaries and wages, which I think is what would mainly be under the employees' line, for the three years 2002-03 through to 2004-05 are 26.5 per cent, 24.9 per cent and 23.8 per cent, which, from your departmental perspective, would seem to confirm the point that Mr McPhee was just making. Have I faithfully reflected a positive trend which I would regard as commendable?

**Dr Watt**—We can come to your specific point about Finance in a moment, Senator. One further point that is worth elaborating on in relation to Mr McPhee's comment is that, if you look at the Commonwealth as a whole, employee expenses generally are driven really by two or three very large agencies—Defence, the tax office, Centrelink. So it would be trends in those agencies that would swamp virtually anything else in the Commonwealth. So if those agencies had their leave arrangements more tightly monitored and so forth, I think that would be giving you a favourable outcome. If they did not, then no matter what the rest of us did, you would not see it in the aggregate numbers. But in relation to Finance, we can get you an answer.

**Senator MURRAY**—My specific question is: am I seeing a projected trend of better management in this area?

**Dr Watt**—It is certainly very hard for us to tell with only these aggregate figures in front of us. You may be.

**Senator MURRAY**—I have given you percentages of employees' provisions to the employees' expenses. I will repeat them: for those three years, 26.5 per cent, 24.9 per cent, 23.8 per cent, which I would regard as a desirable trend.

**Mr Suur**—Over the last two years in particular we have been conscious of the mounting untaken leave by our staff and the increased liability that that exposes us to as an employer, and also the increased health risks that that imposes on our work force. So we have been managing actively people who have what we regard as excess leave. Excess leave is anything in excess of 40 days, which is two years accumulated leave. We have been encouraging people to take that leave and we have been planning for them taking that leave so that they can bring down their leave balances over a period of time. So I do believe that your interpretation of those figures, which is that more attention is being paid to the management of leave balances, is a correct one.

**Senator MURRAY**—That is what I was seeking. Thank you very much.

**Proceedings suspended from 10.43 a.m. to 11.03 a.m.**

**Senator BRANDIS**—Dr Watt, while looking at the portfolio budget statements for one of the agencies, I noticed that the capital user charge has been abolished. Is that the case generally? What is the policy behind that change in the accounting conventions?

**Dr Watt**—The capital user charge has been abolished as of this year. The reason for abolition is that we thought that it was not particularly effective in bringing about the desired behavioural change in agencies in terms of managing their balance sheet better. The imperatives for managing their balance sheet better do remain, even without the user charge, in that CEOs are supposed to be conscious of this and manage properly, and Finance will certainly be taking a close interest in new investments and arrangements for new investments. The abolition is budget wide.

**Senator BRANDIS**—What effect will that have on the bottom line across the rest of the budget?

**Dr Watt**—In a management sense, I do not believe that it will have any impact on the bottom line. However, I will take some advice on whether the actual charge will have an impact.

**Senator BRANDIS**—I was asking about the abolition of a capital user charge.

**Dr Watt**—Insofar as the abolition affects the agency's management of capital, then there may be some very negligible impact. However, we think agencies will manage as well without it as they did with it in terms of managing their investments and their capital. In a formal accounting sense it has no impact on the bottom line.

**Senator BRANDIS**—So the decision to abolish it as an accounting convention reflects a judgement that it had little or no utility?

**Dr Watt**—It was not having the impact in terms of agency behaviour that it had been expected it would have when it was introduced.

**Senator BRANDIS**—How long is it since it was introduced?

**Mr Flavel**—It was introduced on 1 July 1999 with the introduction of the accrual framework.

**ACTING CHAIR (Senator Brandis)**—Before I pass the call to Senator Conroy, I welcome the Minister for Revenue and members of the Jammu and Kashmir Legislative Assembly who are visiting the committee this morning. Ladies and gentlemen, you are most welcome. I hope you find the proceedings of the committee illuminating.

**Senator CONROY**—Senator Abetz, when is Senator Minchin going to be available? This is no reflection on your capacity at the table.

**Senator Abetz**—We don't know, but he is greatly disappointed that he is not able to share this moment with you, Senator Conroy, and he assures me that he will be here as soon as possible.

**Senator CONROY**—He is not trapped, flying around upstairs waiting for the fog to lift or anything?

**Senator Abetz**—No.

**Senator CONROY**—So he is in the building somewhere?

**Senator Abetz**—He might be waiting for the fog to lift elsewhere.

**Senator CONROY**—The government has announced that it has chosen not to adopt the recommendation of the JCPAA that the Auditor-General audit the final budget outcome. Is that correct, Senator Abetz?

**Senator Abetz**—I am advised that that is correct.

**Senator CONROY**—I would like to explore the two reasons that were put forward to justify that—you really drew the short straw on this one, Mr McPhee—in particular that there is not sufficient time and that the CFS statements are already audited. That was outlined in the press release.

**Dr Watt**—I might get Mr McPhee to comment on that.

**Senator CONROY**—On the issue of time, I understand that the budget estimates and framework review of November 2002 established a goal of providing a preliminary underlying cash budget outcome to government within five calendar days of the end of the financial year. Is that correct?

**Mr Prior**—That is correct.

**Dr Watt**—Incidentally, that is just a snapshot of one item rather than having the full set of accounts to draw that item from.

**Mr Prior**—Correct.

**Senator CONROY**—Are you answering your own questions now? Someone said ‘correct.’

**Dr Watt**—Mr Prior is confirming my understanding.

**Senator CONROY**—Thank you. I understand that the budget estimates and framework review of November 2002 also established a goal of providing a preliminary accrual budget outcome to government within 25 calendar days of the end of the financial year. Is that right?

**Mr Prior**—That is correct.

**Senator CONROY**—That is not just a snapshot; that’s the whole enchilada.

**Mr Prior**—The accrual aggregate numbers, yes.

**Senator CONROY**—I understand that Audit report No. 5 from the ANAO—I am not sure whether you worked on that one, Mr McPhee, so you may need to disqualify yourself—stated:

The ANAO’s Better Practice Guide *Building Better Financial and Management Support* notes that world’s best practice organisations have reduced the total time for monthly financial statement preparation to two days through process re-engineering. It also indicates that it is now common better practice to produce financial reports within five to seven days following the end of the designated financial period. As annual financial statements are usually more comprehensive than those produced as part of monthly or periodic financial statements, an allowance of between 5 to 10 days may be required to produce the additional statutory information required for annual financial statement reporting, taking better practice elapsed time to around 10 to 15 days.

I also understand from that report that it took on average 65 days for agencies from the time they prepared their draft financial statements to produce signed financial statements. Are you aware of that?

**Mr McPhee**—I did not recall the details.

**Senator CONROY**—So there is a pretty huge gap there between the ANAO and others and what is world best practice in terms of what is desirable and where we seem to be at. I know we have made some improvements and we have come in hell of a long way from where we were at 65 days. Is it not possible for us to get up to world best practice in this area in the foreseeable future?

**Mr McPhee**—Certainly we will achieve incremental improvements. One of the issues is that some of the late finishers, if you like, are some of the larger agencies. That creates a bit of a problem. I am not sure whether the 65 days you referred to was an average figure or not or what percentage—

**Senator CONROY**—It was an average figure.

**Mr McPhee**—That means, obviously, that there are some that are much longer than that and there are other agencies which complete their accounts and get them audited earlier. There is no doubt that everyone is working very hard to improve the performance, and we will see it. I think that same audit report indicated that, if anything, last year there was not an improvement and it may have even just dropped back a little bit. It means that we have not yet systematised the improvements we need to make. I know from prior experience and through agencies that a lot of effort is going into doing hard closes towards the end of the financial year to try and clear up a lot of the accounting treatments and balances that need to be sorted out so we can improve further the timing of the financial statements completion and their auditing.

**Dr Watt**—Senator, as you said, we looked at this part of the budget framework and estimates review. It might be worth while Mr Prior commenting on what we found. We did our own very small sample of private sector practices.

**Mr Prior**—In terms of private sector practices, as you have pointed out, Senator Conroy, the companies are looking to have much more timely end of year financial reporting time lines. Consistent with what Mr McPhee has said, there is a deal of work to be done here in the Commonwealth to move towards those particular time lines.

**Senator CONROY**—I appreciate that. This is not being critical of the department. If the agencies are not able to give you the information, you can hardly be held responsible. The key here, obviously, is that you have got to knock them into shape, and that is going to take a bit of time, to get them to be able to meet even your own revised time line, which is a substantial improvement on the way they have been wandering around in the fog for the last couple of years. Do you envisage that everyone will meet the 25 days? Are you getting any indications of kicking and screaming at the moment? Do you think there will be a problem getting it down to 25 days and that it is possible that you have got to set a target for next year or the year after to get it down below 25 days?

**Mr Prior**—The budget estimates review contemplates a three-year improvement program. For this current financial year there is no change to the current time lines, with a target or goal of improving the timeliness by some 10-odd days each year out for the next few years. Currently we are talking to agencies extensively. Some of the feedback is that they

acknowledge they are going to have to put additional effort into trying to meet the time lines. So next financial year is the first year when we will try and move it forward a little bit.

**Senator CONROY**—Other than me naming and shaming them in the future, what recourse have you got to try and make sure that they are actually meeting your request on time? Can you hold some money back from them? Is there a way to encourage them to meet your requests?

**Mr Prior**—The review contemplates a reporting regime to be introduced whereby Finance will report to government about timeliness issues.

**Senator CONROY**—I understand the cabinet were particularly concerned in this area, and with good reason.

**Mr Prior**—That is right.

**Senator CONROY**—I was going to add to that level of reporting process by finding out whether that information will be available to the parliament. Maybe I can read it out for you. Would that help?

**Mr Prior**—Currently that information is to be provided to government. There has not been a decision made at this time as to whether it would go further than that.

**Senator CONROY**—Could it be made available? You can take it on notice.

**Dr Watt**—We are happy to take that on notice.

**Senator CONROY**—At the end of the day it will be up to Senator Minchin and the government whether it is available. Certainly, you are preparing advice about who is slack and who is not.

**Mr Prior**—I would not use the word ‘slack’ but, in terms of timeliness, that is certainly contemplated in the reporting regime that accompanies the estimates review.

**Dr Watt**—It is worth while reflecting on why best practice seems to have moved quite substantially in this area in the last several years. I take it that that is a reflection of financial market pressures for earlier company reports and earlier reporting at the end of the season. That is a generic financial market pressure, which we have not had the equivalent of in the Commonwealth. We have obviously had interested users who, with good reason, would like to get earlier material. There is that generic, hard bottom-line pressure or hard pressure on stock prices that some companies have had. It is also worth reflecting on the fact that, for agencies themselves, there are trade-offs. Agencies can produce their accounts earlier, but usually that means—as you say—putting more effort into it, putting more resources into it and putting more cost into it. That has to be traded off against other things in agency budgets.

**Senator CONROY**—Timeliness is key—I am coming to a point on it. If agencies prepared their preliminary statements within the better practice of 10 to 15 days, and they were audited within the same 65-day time frame as last year’s AAS31 statements, the audit would be complete in 75 days with 17 days to spare for the 92-day 30 September deadline. Is that correct?

**Mr McPhee**—To make a point, Senator—your arithmetic is certainly correct—just remember that you are using average figures, and that is the issue for some of the big agencies.

**Senator CONROY**—I appreciate that, but their systems should be up to scratch. If they are not, it is up to the parliament. It is up to the Auditor-General's office to draw to the attention of parliament that they are not up to scratch. Hopefully all of that will contribute to you being able to get them to comply with your own orders. There would be 17 days to spare before the 92-day 30 September deadline if they were meeting best practice. That is the key issue. And if agencies prepared their preliminary statements within the government's target of 25 days and they were audited within the same 65-day time frame as last year's AAS31 statements, the audit would be complete in 90 days with two days to spare before the 30 September deadline. I think my maths works out there again, Mr McPhee?

**Mr McPhee**—Close enough, Senator Conroy.

**Senator CONROY**—Essentially, if the departments meet your request, the question of auditing can be resolved within the required 90 days. Senator Abetz, regarding this argument that the government is running that it is not possible to meet the 90-day deadline, if departments are actually complying with what your government wants them to comply with—Senator Minchin's orders—it is possible to get these documents audited and still have a few days to spare. I know you were concentrating on a number of other items there.

**Senator Abetz**—What you have just done is make a statement.

**Senator CONROY**—Do you agree with the statement?

**Senator Abetz**—We might tease out some of those aspects of the statement so that there is some clarification.

**Mr McPhee**—Just reading from the government response on whether the FBO should be audited by the ANAO, I note that the government said that under present arrangements this deadline is met with little time to spare. Obviously, that is not suggesting that matters could not be considered downstream; it is just recognising quite properly the very tight timetable we have under existing arrangements.

**Senator CONROY**—But the pure maths of it is that if the government departments comply with your request and then you have the same time frame for audit that you had previously, you can meet the deadline.

**Dr Watt**—One point to remember is that you are using average numbers.

**Senator CONROY**—I am saying that, if every department meets the request and the test that this government—the minister for finance—has put on them, it is possible to get these statements audited. So this furphy that is being run by the government—I am addressing Senator Abetz more than the department—that there is not time and that it is all too tight is just rubbish. I am directing this at Senator Abetz; I do not want to draw you into a political argument.

**Mr McPhee**—I appreciate that, Senator Conroy. The only technical point I would make on your point is this: bear in mind that not only the agency information but also the aggregated



information has to be audited. There is another audit process at the end which has to be taken into account, unless it can be done entirely in parallel.

**Senator CONROY**—I am sure that, with his competence, the Auditor-General could manage to do it in parallel with that other process. I just wanted to get to the nub of this 90-day period being a constraint. It is not a constraint. But I will move on; I will not tax you any further, Senator Abetz.

On the issue that there is already an implicit audit, given that agency financial statements are already audited, I just want to look at another furphy. Is the final budget outcome prepared on the same basis as agency financial statements that are currently audited? I think the answer is no but I just wanted to confirm it.

**Mr Kerwin**—The final budget outcome has statements in it which are GFS statements. It also has statements in it which are AAS or accounting type statements. As to the way in which the numbers come together within the department, we receive the information, and it is AAS or accounting type information that we receive. We QA that information. It is information which has received audit sign-off. That information is then converted into the GFS numbers and statements as well as, obviously, the consolidated accounting statements.

**Senator CONROY**—I appreciate that you made the point that there is both GFS and AAS31 information in the FBO but it is prepared on the basis of the GFS.

**Mr Kerwin**—That is the primary reporting and—

**Senator CONROY**—It is a GFS document—it is not audited—whereas the departmental information you receive is audited under AAS31, so they are not directly comparable.

**Mr Kerwin**—That is correct.

**Senator CONROY**—Is the final budget outcome prepared on the same basis as the consolidated financial statements, which are currently audited?

**Mr Kerwin**—In terms of the conversation we have just had?

**Senator CONROY**—Yes.

**Mr Kerwin**—No, with the emphasis on GFS—

**Senator CONROY**—Yes. So on budget night, when the Treasurer announces the key GFS budget aggregates—the budget balance and government debt—will the calculation of those numbers ever be subject to any type of independent verification?

**Mr Kerwin**—In terms of what we do at the moment, the independent verification is further down the line. Say for the final budget outcome, there is the independent verification to the point at which statements are provided to Finance, because the auditor has looked at those numbers.

**Senator CONROY**—Sure, but—

**Mr Kerwin**—There are some entries which—

**Senator CONROY**—We have just agreed that they are different; they are on a different basis, the ones that are provided to you—the audited statements. This is my point: you get some audited statements then you convert them into something else, produce a document—

this is not really trying to draw the department into the argument; I am doing my best to avoid doing that—but when the Treasurer stands up and announces, ‘Here is the budget balance; this is government debt,’ there is no independent verification. He could say that we were in surplus or in deficit; no-one ever actually audits it.

**Mr Kerwin**—There has been no independent verification by the Auditor-General. I have just been informed that there is some level of independence in that the Australian Bureau of Statistics generate a separate set of numbers which are comparable with and can be compared with the numbers prepared by Treasury.

**Senator CONROY**—Are they included in the budget papers on the night?

**Mr Kerwin**—No, not on the night; separately.

**Senator CONROY**—When the Treasurer announces it, on budget night, there has been no independent verification. The ABS may do a reconciliation or something that allows that—and I thank you for that information; I will have to hunt that down and have a bit of fun with it—but the GFS budget balance that the Treasurer announces is never subject to audit. That is a statement of fact?

**Mr Kerwin**—That is correct.

**Dr Watt**—Senator, it is worth making a couple of points. One is that the GFS balance is nevertheless derived from other items which are subject to audit, and the movement between the two is pretty transparent.

**Senator CONROY**—No, I think we had a discussion earlier today that it is not actually possible to read between the two. As I described it to Mr McPhee a little earlier, if you try to move between the two you keep finding all these black holes. It is not your fault.

**Dr Watt**—It is possible to move between AAS31 and GFS. That is quite transparent. That is not an issue. With the CRF we agreed—

**Senator CONROY**—Following the individual numbers through, given that you are doing estimates—

**Dr Watt**—Nevertheless, it is a reasonably transparent arrangement. It is a longstanding one.

**Senator CONROY**—We have gone from ‘transparent’ to ‘reasonably transparent’.

**Dr Watt**—I think it is transparent.

**Senator CONROY**—If we keep going for a little while, we will be moving down to ‘opaque’.

**Dr Watt**—I will go back to ‘transparent’, Senator. Secondly, as you know, budget balances, whether audited or not, are subject to a great deal of public scrutiny, including by the parliament. I would have thought that, unless those budget balances are the best estimates that can possibly be made—and they are—they would be shown up to be something else by the parliament and the public, and by the amount of scrutiny they get from public commentators.

**Senator CONROY**—We are going through that scrutiny right now. We will be talking about different bits in the actual documents.

**Dr Watt**—My sense is that there is what I would call a small ‘a’ audit of those budget aggregates by public commentators, parliamentarians and people like yourself.

**Senator CONROY**—Essentially what we are interested in is how the numbers are compiled into the GFS budget balance and what is included above and below the line. That is the key difference between GFS and AAS31—what is allowed to be above and below the line.

**Dr Watt**—That is correct.

**Senator CONROY**—There is a great deal of flexibility in GFS, which we will be coming to.

**Dr Watt**—I don’t think there is flexibility. I think there are different classifications. Senator, as you know, there is now in the budget documents a reconciliation of GFS and AAS31, and quite a transparent reconciliation.

**Senator CONROY**—I have congratulated you on that being there, and I appreciate that.

**Dr Watt**—We just wouldn’t want you to miss it.

**Senator CONROY**—To be fair, I did mention that.

**Dr Watt**—You did.

**Senator CONROY**—I understand there have been a number of changes to the finance minister’s orders regarding the financial reporting requirements.

**Dr Watt**—There have, Senator.

**Senator CONROY**—I understand the ANAO produces a document called *A model agency*—

**Dr Watt**—That is correct.

**Senator CONROY**—which discusses the orders and identifies key developments. The ANAO report summarises 18 of the most significant changes. Do you share their interpretation of which changes are significant?

**Mr Kaufmann**—Changes in the finance minister’s orders?

**Senator CONROY**—Yes. They do a review and they say, ‘These ones are significant and these ones are not.’ I understand they liaise with you. I was really asking whether you agree with their interpretations.

**Mr Kaufmann**—Yes, broadly.

**Senator CONROY**—I acknowledge again that I welcome the decision to reinstate the schedules for reporting administered expenditure. I think that is a big step forward. The FMO introduces an explicit requirement for agencies to comply with accounting standards. Why was it necessary to introduce an explicit requirement? What have they been up to?

**Mr Kaufmann**—They have not been up to anything, Senator. One of the benchmarks that we use and one of the underlying principles for financial reporting is compliance with accounting standards and other accounting rules, and we simply make that very, very clear in

the finance minister's orders because the auditors audit against the finance minister's orders and they audit against the accounting standards in terms of compliance. So we make it very, very clear that a set of annual accounts must be prepared in compliance with the Australian accounting standards and other accounting rules.

**Senator CONROY**—Was it unclear to some of these departments previously that they had to comply with accounting standards?

**Mr Kaufmann**—No. Certainly, going back over the decade as we moved through the transitioning on accruals, agencies were putting in systems, getting used to accruals and, as I said earlier, we just simply reinforced the underlying principle to comply with the standards.

**Senator CONROY**—Is this a legal requirement?

**Mr Kaufmann**—Yes, under the FMOs it is a legal requirement.

**Senator CONROY**—There was no previous legal requirement?

**Mr Kaufmann**—Previous to the FMA Act and the CAC Act, the department of finance, as I understand it, issued guidelines on the preparation of financial reports. Again, the underlying basis was accounting standards. Also, the overriding rule, given that AAS29 and AAS31 et cetera were in existence, was that members of the profession had to comply with those.

**Senator CONROY**—Here is your chance to name and shame. Who was not complying?

**Mr Kaufmann**—Offhand, I cannot answer that question.

**Senator CONROY**—Since the introduction of the FMA there has been no legal requirement. You only went back a couple of years. Before FMA, was there a legal requirement?

**Mr Kaufmann**—I would have to check. As I said, I think it was by virtue of the guidelines.

**Senator CONROY**—Convention and guidelines. You would hope that they were complying with them.

**Dr Watt**—We can check and get back to you.

**Senator CONROY**—Are there any sanctions or penalties if agencies breach these accounting standards? Who do we set on them, other than me?

**Mr Kaufmann**—The overrider is the potential for an audit qualification to their annual accounts.

**Senator CONROY**—The FMO introduces an explicit requirement for agencies to comply with schedule 1 of the finance minister's orders. Why was this necessary?

**Mr Kaufmann**—In putting the finance minister's orders together we have black letter, which is schedule 1, plus we provide a lot of guidance, which we commonly call grey letter—guidance on how to apply the black letter—to financial report preparers. Schedule 1 in a legal sense represents the black letter.

**Senator CONROY**—Does that suggest that some departments got advice from you that was informal and then perhaps chose to go their own way—not comply with the guidance?

**Mr Kaufmann**—No, from time to time we do get queries from agencies as to interpretation and treatment, but certainly there is no indication of non-compliance.

**Senator CONROY**—You have set them on the straight and narrow, have you?

**Mr Kaufmann**—We certainly try to.

**Senator CONROY**—Going back a question, what about GFS? There is no audit of agency GFS accounts?

**Mr Kaufmann**—Not that I am aware of. The primary data coming to the department for the GFS tables is from the AAS accounting standards information.

**Senator CONROY**—Do you break that out yourself, or do they give you both?

**Mr Prior**—The agencies provide us with AAS and we do a conversion in the centre to GFS tables and information and financial statements.

**Senator CONROY**—You convert it rather than trusting their GFS preparation.

**Mr Prior**—We convert it; it is not a question of trust.

**Senator CONROY**—I am comfortable with that answer. I think it is a good answer. The new 25-day target is for budget outcome data, not AAS31?

**Mr Prior**—The new target is to provide accrual information to the government within 25 days. That will be accrual information on a GFS basis, but, as we have said to you before, we collect AAS to then convert to GFS. That would be part and parcel of it.

**Senator CONROY**—You have the AAS31 before you can do the conversion.

**Mr Prior**—It might be worth noting that another component of the recommendation of the review was the harmonisation of GFS and AAS. That is an important element.

**Senator CONROY**—I appreciate that. You have been driving that agenda heavily on the FRC, Mr Prior. As you know, I have had extensive conversations with FRC about their contributions in that area. We appreciate you rescinding the FRC's previous position. But we all got the message.

**Mr Prior**—The point I was making is that, in terms of timeliness, the GFS-AAS harmonisation is an important component of achieving that timeliness goal. We should not lose sight of the nature of all these elements. They need to come together.

**Senator CONROY**—I understand that there is also a requirement to explain movements in administered assets over the year. What is meant by 'explain'? Is this explanation in a written form or a table showing opening position changes and closing position?

**Mr Kaufmann**—It is in the form of a table that starts off with the opening position and particularly focuses on the funding flows to agencies and back to the centre, which are generally administered—

**Senator CONROY**—Opening, changes, flows—you describe them—and closing?

**Mr Kaufmann**—Yes.

**Senator CONROY**—I understand that agencies already report movements in physical assets such as land and buildings. Has this now been extended to all assets, including financial?

**Mr Kaufmann**—Not at all, Senator. The underlying requirement is for property, plant and equipment assets. We will continue to—

**Senator CONROY**—You are not chasing financial assets?

**Mr Kaufmann**—No. Agencies themselves will run from an opening balance through their debits and credits to their closing balances, such as receivables or cash. The cash flow statement in the accounts, both administered and departmental, show that.

**Senator CONROY**—They do not report to you their financial assets moving around?

**Mr Kaufmann**—No, that is not a requirement.

**Senator CONROY**—It is not a requirement, but do they do it?

**Mr Kaufmann**—They should be doing it.

**Senator CONROY**—They seem to need to have things set out in black and white for them. Maybe this is an issue for Dr Watt or the minister, but given that you have had to spell some things out for them do you think there is a need to spell this one out for them as well?

**Mr Kaufmann**—I do not believe there is a need. The accounting standards make it quite clear what is required in the balance sheet. They have their own ledgers to track the transactions.

**Senator CONROY**—There is not an Australian accounting standard on financial instruments, though.

**Mr Kaufmann**—There is one requiring note disclosure.

**Senator CONROY**—That is not quite the same as an accounting standard.

**Mr Kaufmann**—It is a specific accounting standard and that requires note disclosure of financial instruments, including cash, receivables, going right down through into derivatives.

**Senator CONROY**—I hope you do not read too many of my speeches, but I have been raising recently the issue of derivatives and my concern is that, if they are not telling you and explaining it to you so you can cast an eye over it, there is an opportunity for them to lose a lot of money, without any real supervision. I am not suggesting that there are any Nick Gleasons out there. Maybe the department of transport has got one, according to today's papers. I am concerned to ensure that they are giving you the true picture. Wouldn't the simplest way to clear this up be to make it part of the orders?

**Mr Kaufmann**—The existing Australian accounting standard requiring note disclosure is quite extensive. There is a lot of narrative on risks and about what the instruments are. There is also a lot of financial data to be disclosed, including current values. Moving forward, when I look at the program on the International Accounting Standards Board this is a very big topic. The international board is spending a lot of time on financial instruments. The general move that it is flagging at the moment is to bring financial instruments, including derivatives, on balance sheet and at fair value.

**Senator CONROY**—I think you are being a bit generous to the Australian standard. Notwithstanding you extolling its virtues a moment ago, I think Keith Alfredson and a range of other people have been more critical of the quality of our standard and have suggested that we should be adopting immediately the international standard, which does, at this stage, provided it is not watered down. I would have that conversation with you but I would bore everybody else in the room. But I am concerned that the international standard is being watered down to a level where it is becoming almost meaningless. As I said, I would love to have that conversation with you another day. But I think you are being a bit generous to the Australian accounting standard there. Surely, there are simple requirements, just like you have with all these other things. They are all complying really and there is no suggestion that they are not, but just to clear it up—

**Dr Watt**—We would be happy to look at that in the future. There are a couple of points worth making from a different perspective that might be worth mentioning. One, as you know, the government decided some time ago that the foreign exchange risk would be borne by the budget and agencies would not hedge foreign exchange transactions, with very explicit exceptions. In a sense, if you are speculating that an agency could get into derivative trading and lose money, then, clearly, if derivative trading had percolated to foreign exchange instruments, that would be not allowed by the requirement of these things we know as ethics hedging. So that would rule out a lot of the potential derivative trading, even if an agency were inclined to do it.

**Senator CONROY**—Sure. Have you seen the reports on the department of transport from yesterday's estimates: that they seem to be consulting insolvency experts?

**Dr Watt**—I only saw the media report. I am not quite sure—

**Senator CONROY**—I am going to send Mr Kaufmann down there as soon as he is finished here. I think it is off to the department of transport.

**Dr Watt**—I am not quite sure that that is what the media report said. I drew a different intention: that they had consulted some accounting experts who also tended to be insolvency practitioners. But perhaps I drew the wrong implications.

**Senator CONROY**—Do you recognise forex losses in the budget due to swap trading? I hope the answer is no.

**Mr Kaufmann**—Yes.

**Senator CONROY**—Where? How?

**Mr Kaufmann**—In the statement of other economic flows. Under GFS, they are in the statement of other economic flows.

**Senator CONROY**—I understand under GFS how you get away with that.

**Mr Kaufmann**—In accounting, they are in the operating statement.

**Senator CONROY**—I understand that accounting rules are specified for return of departmental funds to the official public account according to the nature of the transaction.

**Mr Kaufmann**—Correct.

**Senator CONROY**—Could you take me through what is meant by that?

**Mr Kaufmann**—As part of the budget estimates and framework review, we are moving to a just-in-time drawdown basis on the departmental side of accounts. To effect that, agencies will be paying back some of their unspent appropriation. If the appropriation relates to running cost activity, it will simply be a cash transfer back, swapping cash for a receivable. If, in the past, the money has been provided through an equity injection, for example, or some sort of loan facility, then it is more in the nature of a return to the owner, as a return on capital or a return of capital through the equity side of the balance sheet.

**Senator CONROY**—I would like to welcome Senator Minchin to the table; he has arrived at appropriate moment. I was just about to ask: was Defence required to return funds to the OPA? I understand that, for the 2003-04 year, Defence has returned \$960 million to the official public account, which I think went to the heart of an answer that Senator Minchin gave when he said: ‘Why don’t you go and ask Defence?’ when I once asked how they were salting away this money. So you got the money back from them finally?

**Mr Kerwin**—Under the budget estimates and framework review, Defence commenced the hand back of cash and just-in-time drawdowns of cash ahead of the 1 July commencement date, which was set up for all agencies. They commenced that earlier.

**Senator CONROY**—Congratulations on getting it back from them. It is a big win for Senator Minchin over Senator Hill. It is not the first time and it will not be the last. I understand that major assets to be sold must be revalued prior to transfer for sale by another Commonwealth entity, usually Finance. Is that correct?

**Mr Kaufmann**—They are not so much revalued, but certainly the value has to be assessed in terms of what we call a recoverable amount test—that is, the value in the books of the transferor must reflect the proper and true carrying value before it is transferred over. The intention is to avoid the transferee—once they get those assets—copping a loss, and an inappropriate loss, when they are trying to sell them. We are trying to keep the values on an even keel.

**Senator CONROY**—Are there any instances where major assets have been sold without an independent valuation?

**Mr Kaufmann**—I am not aware of any.

**Senator CONROY**—Could you take on notice whether any agencies have and what assets they were, if possible? Have you sustained some inappropriate losses—as you describe them—on this basis in the past?

**Mr Kaufmann**—I am not aware of any.

**Senator CONROY**—Could you take that on notice for us, just in case there have been some over the last few years.

**Mr Kaufmann**—Yes, I will take that on notice.

**Senator CONROY**—You are also responsible for administering and disposing of major assets. Who would be responsible for valuing assets sold by Finance? If you were selling your assets, would you get an independent valuation?



**Mr Yarra**—Our assets would extend not only to those that the department owns but also to the government's major asset sales program.

**Senator CONROY**—I have covered the asset sales program for the rest of the government—Mr Kaufmann explained the processes there. My question is really about your own assets—if you owned your building and you wanted to sell it, who would you get to come in and give you a valuation?

**Mr Kaufmann**—The normal practice would be that an independent valuation would be obtained.

**Senator CONROY**—Could you explain the new impairment test for non-current assets that are carried at cost, including specialist military equipment and computer software?

**Mr Kaufmann**—This is a difficult area.

**Senator CONROY**—I hope you have an explanation, because from the sound of it we have some guns that are only firing every second round.

**Mr Kaufmann**—No. The rule is that even for assets that are held at cost—

**Senator CONROY**—Fully working.

**Mr Kaufmann**—and are in service that, whilst they are held at cost, the agency must keep an eye on impairment in terms of ensuring that the carrying value, even though it is at cost, is not unrealistic. That is the rule.

**Senator CONROY**—Is there much of a market for second-hand tanks and used FA18s?

**Mr Kaufmann**—Not that I am aware of.

**Senator CONROY**—As you say, it is difficult.

**Mr Kaufmann**—This is a particular issue that we have raised with the AASB for public sector assets and the impairment test, and the AASB is looking at it.

**Senator CONROY**—Is this new test likely to result in any material changes in the value of these assets?

**Mr Kaufmann**—I am not expecting any.

**Senator CONROY**—What about Defence and ATO? My understanding is that they are the two tricky ones.

**Mr Kaufmann**—The FMOs spell out what is required, but it is more to create some discipline for particular agencies.

**Senator CONROY**—So there will be no material changes—understanding the usual definition of 'material'?

**Mr Kaufmann**—I am not expecting any.

**Senator CONROY**—I note that all intangibles must be reported at cost. Can you identify the major intangible assets held by government, and please do not say 'goodwill'.

**Mr Kaufmann**—Software.

**Senator CONROY**—Is that it? Is that the main one?

**Mr Kaufmann**—That is the main one for departments and like agencies. You are quite right: goodwill is not one. Again, the International Accounting Standards Board is working on this. What are intangible assets? For argument's sake, they are biological assets, patents, trademarks and that sort of thing. For us it is software. We have taken the lead in the sense that we adopted the international standard on this quite some years ago.

**Senator CONROY**—What rate of depreciation do you apply to your software, say, over three years?

**Mr Kaufmann**—If you are going to hold the software for three years and it is in on a straight-line basis, it is 33 per cent.

**Senator CONROY**—I gave you a number of assumptions in that question. Would you like to give me what you would normally do as opposed to what my assumptions might be?

**Mr Kaufmann**—Generally speaking, given technology advances, software is a short-lived asset. To be prudent, I would be writing it off in a shorter time frame compared to a longer time frame, but that would need to be consistent with your replacement plans and your asset management plans.

**Senator CONROY**—Software is at times completely disastrous. Some are able to implement it and make it work for a while, others are not. There are plenty of private sector examples in recent times: NAB are running a \$400 million loss on their software development; I think RMIT famously lost \$20 million; UTS have lost about \$50 million implementing software; and I understand one of your own departments are currently engaged in a debacle over its software—the name just escapes me at the moment. What is your common assumption on how long you hold the software for? If it is commercially sensitive please say so, it is just that you seem very shy about giving an indication.

**Mr Kaufmann**—My common assumption would be three to five years.

**Senator CONROY**—Have you written off your old accounting system?

**Dr Watt**—I think that is a question for a different officer, Senator.

**Senator MURRAY**—I have explored these issues when looking at balance sheets at previous estimates and the universal response I received from a number of departments was three years. I think the real importance of your question, Senator Conroy, is whether the government should ever look at writing it off in year 1—

**Senator CONROY**—I understand what you are saying.

**Senator MURRAY**—because the three-year amortisation process is almost meaningless.

**Dr Watt**—With regard to our own accounting system, I will ask Dominic Staun to come to the table. He is our chief financial officer and is best placed to answer this.

**Mr Staun**—We typically write it off over five years.

**Senator CONROY**—Does that mean you have fully written off your old accounting system now?

**Mr Staun**—Are you talking about the AIM system?

**Senator CONROY**—Yes.

**Mr Staun**—No, that will be written off as per the budget papers in 2005-06—that will be the final write-down.

**Senator CONROY**—How long will that have been written down over?

**Mr Staun**—A period of eight years because there have been at least three or four years of continuing capitalisation development. The AIM system is of course still with us.

**Senator CONROY**—Of course it is; it is just bowling along.

**Senator MURRAY**—I will stay with that area because it was an area in which I had a previous interest. What would the cons be apart from the effects on your financial statements for the year? What are the pros and cons of moving away from writing things off over three years and simply banging them off in year 1?

**Mr McPhee**—If you write it off in year 1, it can lead to lumpy write-downs in particular years. The reason assets are capitalised and written off over a period of time is that they are intended to be written off at the rate they deliver service potential or lose service potential. You could understand that it could significantly affect the results, say, if you acquired the software for \$5 million in one year and wrote it off in that year. That would be a significant hit on the operating statement; whereas if it was going to live for three years you would write it off for \$1.66 million, or whatever it is.

**Senator MURRAY**—With specific regard to software, my memory of the accounts that I have looked at is that they tend not to be overly lumpy—in other words, they are regular and consistent expenditures. A three-year period recognises that effective life can often be very short for some programs and quite long for others. Three years is a notional generalisation, if you like, for all things; whereas with a building, if you decide on 20 years, it is likely to be reasonable. I just wonder whether it has much meaning any more for certain software.

**Mr McPhee**—I think that it is a credible argument for taking expense—that is, if you run an IT shop in-house, particularly, with a fairly common cost of operations, I think there is a reasonable argument for expensing it each year. It is just that you cannot always assume the expenses are even, and that is why we go to the capitalisation model.

**Senator MURRAY**—I would have assumed the only major negative would be that in the first year you make the adjustment, you take a big hit, and then after that it just evens out.

**Senator CONROY**—Mr Staun, you mentioned that it was over eight years, because I think you said you capitalised it a bit. Was that money injected into the system to upgrade what you still had?

**Mr Staun**—There has been continuing development over the period in which AIMS has been in place—enhancement and refinement—and under the standard it is reasonable to capitalise those expenses and write them off as expected life to the asset.

**Senator CONROY**—So you started off with maybe five years—

**Mr Staun**—Correct.

**Senator CONROY**—and then you were pushing money into the system to upgrade it and felt that that justified moving it out to eight.

**Mr Staun**—It is just the effluxion of time—what we spent in the first year would have been written off by the fifth; what has been expended in the third would be written off by the eighth.

**Senator CONROY**—So you did stop expending money on it after the third year?

**Mr Staun**—No, there has been continuing expenditure in development.

**Senator CONROY**—So you just take the hit at the end of the eight years?

**Mr Staun**—We capitalise it and depreciate it.

**Dr Watt**—I think, though, that the development in the last couple of years has not been anywhere near as extensive as in the first two or three.

**Senator CONROY**—That is what I am getting to. You are scrapping it, so I am surprised you have still been injecting—

**Mr Staun**—To take Senator Murray's question, that is the reason we would not write off each year, because quite clearly the expenditure was very much higher in the initial years than it is now. If you have written off each year, you would get quite a change in the expenditure rather than spreading it over the life of the asset.

**Senator MURRAY**—Except that three years is often not the life of the asset.

**Senator CONROY**—Yes. So eight years is the life of the asset?

**Mr Staun**—AIMS is continuing and will continue for another year or two yet, so clearly it does have a life of eight years, because that is how long it will have been in use.

**Senator CONROY**—But you are scrapping it, aren't you?

**Mr Staun**—You will have to ask the gentlemen from the budget estimates framework view, but the understanding is that it will be replaced by a new system and so it will be scrapped. That is what is in our budget papers.

**Senator CONROY**—Does it have any value, if you are scrapping it?

**Mr Staun**—It still does at the moment, because it will be used for the next two years.

**Senator CONROY**—I understand that all evaluations of non-current assets must be at fair value and that this may differ from deprival value. Could you explain the difference?

**Mr Kaufmann**—Certainly. Very simply, deprival value is depreciated replacement cost at the time of the asset. Fair value is the current market value—whether that would be, depending on the asset, the current market selling price or the current market buying price. But, in many instances, there is not a lot of difference, particularly for short-lived assets, deprival being a replacement cost.

**Senator MURRAY**—But it would be true that, in the absence of a market value, you would always go for the deprival value, wouldn't you?

**Mr Kaufmann**—That is correct.

**Senator CONROY**—I understand that formal valuations of non-current assets must be done once every five years. Could you explain what 'formal' means—is it 'independent'?

**Mr Kaufmann**—Correct. The accounting standard requires—and it is a black-letter requirement—that values be kept up to date regularly. That requirement is on management, and they can choose how they would do that, but it would be by sampling and by reference to what is going on in the market. But they do have to keep them up to date regularly, and that is annually. But, to keep some disciplines in the process and to keep some comfort on the overall values of the assets, we are requiring formal valuations—that is, independent valuations—every five years.

**Senator CONROY**—I understand these new rules on valuation of current assets applied from 1 July 2002.

**Mr Kaufmann**—The standard provides a three-year transition from 1 July 2002 through to 30 June 2005, with a further year of catch-up. That is a transition for the public sector.

**Senator CONROY**—Have they not been having regular evaluations? Have they been holding out on you again?

**Mr Kaufmann**—Prior to this requirement, there was a requirement to have their property, plant and equipment asset base on a triennial valuation and revaluation process. So they would take one class this year and another class next year but over the three years they had to keep them formally up to date.

**Senator CONROY**—So will there be any revaluations that you are aware of to be reported this financial year?

**Mr Kaufmann**—I understand several agencies are doing some revaluations.

**Senator CONROY**—Are you in a position to tell us who the agencies are?

**Mr Kaufmann**—No, I am not.

**Senator CONROY**—That is okay, I understand. The accounting standard requires that you value at the current market. I am just wondering how, if you are doing a three- or five-year process, you reconcile that, given that in each year you have to do it at market valuation.

**Mr Kaufmann**—The standard requires that you revalue assets at either fair value, which is a current value, or at cost—you have that choice in the standard. As to where you are at fair value when you are on a revaluation cycle, whilst, as I said earlier, agencies must keep those values up to date regularly, there is a three-year transition period with a caveat of formal valuations every five years. For certain types of assets—for argument's sake, assets that you are going to keep for a short period of time—your existing value, your deprival value, is probably at fair value and you would simply be doing some sampling to ensure that that valuation is up to date.

**Senator CONROY**—Can you explain why departmental revenues and expenses must be reported by output, not just by output group? Does this mean that agencies will report appropriations on an output, rather than on an outcome, basis?

**Mr Kaufmann**—Yes. The FMOs require that departmental appropriation funding be split down via outcome and then, in table form, output and output group form, so you have your revenues and expenses and some asset and liability disclosures by the output group. That is intended to try to create a read-back to the PBS to get the budget and the actuals.

**Senator CONROY**—We are barracking hard for that one, as you know. Can you explain what is meant by suggesting that all attributions being used to allocate revenues and expenses between outcome or between outputs ‘must be reliable and the basis of attribution must be stated’? Have they been unreliable?

**Mr Kaufmann**—There are certainly no indications that they have been. Indeed, from what we understand, most agencies have a fairly good process in allocating their total funding and attributing it across.

**Senator CONROY**—Yes, that Defence output—singular—was always pretty good.

**Mr Kaufmann**—That is a matter for Defence and others. We are simply trying to create some disciplines here to get some robustness into these allocations and, in particular, to ensure that corporate overheads are properly attributed across the programs or the outputs and output groups.

**Senator CONROY**—So will appropriations only be able to be spent on an output basis?

**Mr Kaufmann**—No.

**Senator CONROY**—Can you explain by what is meant by ‘greater detail’ being required ‘regarding revenues which contribute the net cost of outcome delivery, including certain cost recoveries’?

**Mr Kaufmann**—What we have done here is to pick up the Productivity Commission’s report on cost recoveries that was handed down last year and the government’s response to that. One aspect of it was to require greater disclosure where there is a cost recovery regime in place. So the FMOs are reinforcing that—where you have a cost recovery regime in place, we want some information in the notes in terms of revenues and expenses.

**Senator CONROY**—So at the moment appropriations are on an outcome basis and can be switched between outputs. Does this mean that appropriations cannot be switched between outputs now—where you have gone now?

**Mr Kaufmann**—No. It is intended to create some disciplines, but the overall appropriation process and parameters are that, on the departmental side, you appropriate at the outcome level and it is up to the department how they split those expenditures across their outputs.

**Dr Watt**—We might be able to elaborate on that, Senator.

**Mr Flavel**—I think Mr Kaufmann has answered the question, which is that, for appropriations on a departmental basis, an agency chief executive can utilise flexibility across outcomes.

**Senator CONROY**—We would not want too much discipline by not allowing them to switch it between outputs. That would be a bit too much discipline, would it?

**Mr Flavel**—No, I think if you go back in time, prior to 1999, it was a running cost allocation, which was a bucket of money for a chief executive or secretary to use. In fact there has been no change in the flexibilities prior to 1999 compared to now.

**Senator CONROY**—Can you explain the new requirement that debits against an appropriation which are credited to a special account must be identified separately. Does this mean a general appropriation can be transferred into a special account?

**Mr Kaufmann**—No, Senator. As we know, special accounts have their particular purposes. The FMOs require some more detailed disclosures through the output table and acquittal tables, and the note disclosures on special accounts have been increased.

**Senator CONROY**—I acknowledge that.

**Mr McPhee**—To be clear on that, it is possible to pay moneys out of an appropriation into a special account.

**Mr Kaufmann**—As long as it satisfies the purpose of the special account.

**Senator CONROY**—That comes down to definitional issues of how vaguely they have been able to write them to get away with anything. I appreciate that you have been trying to close that definitional issue. Is it possible that the designated purpose of a special account may differ from the definition of the outcome to which the original appropriation was made?

**Mr McPhee**—The payment from the appropriation must be consistent with the outcome and be legitimate. Therefore, when it goes into the special account, there needs to be consistency between the purpose of the outcome and the designated purpose of the special account.

**Senator CONROY**—Given how broad some of those definitions within special accounts have been, it has been possible for it to go in there with one particular tag on it and then spread around within the special account's broader definition. I know that you guys are trying to ensure that there is accountability on this issue from your perspective.

**Mr McPhee**—Strictly speaking you are correct, if I understand your question. If you have a very narrowly focused outcome and a special account, say, with a broad purpose, provided that the reason for the transaction is consistent with both the outcome and the special account, it can go into the special account. If there is a wider purpose again for which that can be used, conceivably it can be expended for another reason. We would obviously look at that in establishing special accounts, to make sure that the purposes are more concisely defined.

**Dr Watt**—I think Mr McPhee's point when he said 'in theory' is right. As you know, Senator, criticism of our outcomes framework has been that the definitions are too broad rather than too narrow.

**Senator CONROY**—I appreciate that. Recently I was chatting with one of the departments—the name escapes me but I am sure it will come to me shortly—when there was some argument about the expenditure of money. The department believed that they could spend the money out of a special account one way. They consulted with you and you said no, and a year later, following legal advice about what the new rebroadened interpretation of what a special account was, they were able to keep doing it. There was an argument backwards and forwards, and you guys said, 'No, you can't do that,' and then they went away and got extra legal advice years later, having kept doing it despite your advice. So I am just concerned to ensure that we are tightening up these definitions, which I know you guys are working hard on. I think it was GEERS. I see Mr McPhee nodding. Just to absolutely clarify it: can transfer funds be spent only according to the existing appropriation, or can they be spent according to the designated purpose of the special accounts?

**Mr McPhee**—The answers are yes and yes.

**Senator CONROY**—I am particularly interested in the business services trust account—it has some infamy—which has basically no limitations. Are you helping to refine that one? This is the Macquarie Bank-Commonwealth car debacle.

**Dr Watt**—The business services trust account has a purpose that relates to the outstanding issues of the former DAS businesses, if I remember correctly. Mr Hodgson will correct me if I am wrong. That is a necessarily broad purpose, because the former DAS businesses were necessarily broad.

**Senator CONROY**—I appreciate that they were broad. The problem is that it was basically non-disclosed until much later. I know that it is a lot tighter than it was. But fundamentally—I will use my language, which I will not invite you to agree with—there was a complete debacle and the government were able to not disclose a payment to sort out this debacle for a considerable time. I do not think that they could do that now under what you have introduced.

**Dr Watt**—As you have said, that is your language, not ours, but perhaps I will ask Mr Hodgson to comment on—

**Senator CONROY**—Could it happen now and not be disclosed relatively in real time? That is a separate question to add on to the one you were coming to the table to answer, Mr Hodgson.

**Mr Hodgson**—There are no moves at the moment to reduce the scope of the business services trust account, given that it addresses all the issues coming out of the sale of previous DAS businesses and the scope of those businesses. But all transactions from the accounts are reflected in the department's annual report.

**Dr Watt**—As to your broader point about whether this could happen now, Mr McPhee might comment on that.

**Mr McPhee**—As you know, we have greater disclosure around payments out of appropriations into special accounts now, so it should be apparent where the flows are, and in fact there should be greater disclosure in relation to special accounts as well.

**Senator CONROY**—Can you explain the new requirement that the balance of appropriations legally available at year end must be reconciled to the reported balances of departmental and administered assets as at 30 June? What have they been up to?

**Mr Kaufmann**—These are some additional disclosures that pick up what I call the internal funding flows from the centre out to agencies and any returns from agencies back to the centre. It is simply some additional disclosure, again putting some disciplines on agencies around these funding flows, particularly on the departmental side, and to better facilitate our consolidation processes.

**Senator CONROY**—Just to take up Mr Hodgson's answer, we still would not see an individual transaction bobbing up like Macquarie Bank at the moment, given how broad it is. Would that be fair to say?

**Mr Kaufmann**—Correct.



**Senator CONROY**—Any suggestions on how we could rectify that? I do not know enough about the system, Mr Kaufmann—you might be able to help. Is there any enhancement that is possible? You do not have to sign your life to it: it is open for me and the minister to have the argument about it. What could I suggest that would enhance that transparency?

**Mr Kaufmann**—The first thing I would say is that we have gone a long way in trying to have some significant increase in disclosures around appropriations and funding flows. I do not know how much further we could go. That said, we could have some further note disclosures on particular transactions, but we would need to make sure that we keep that within the accounting framework to keep true to that framework. But, also, if there is a need for accountability purposes for these things to be disclosed, then so be it—disclose it.

**Senator MURRAY**—If I may interrupt, from my perspective and my interpretation of many of the questions in these kinds of areas, the concern is not as much with the original appropriation identification as with subsequent variations and variances and that those are not properly flagged. That is where we get our concerns.

**Senator CONROY**—I would probably say that I would be concerned about what the actual payment was about, but I agree about the flagging issue. It is the flagging issue that allows us to investigate, rather than the individual transaction. How can I get them flagged on a more real-time basis?

**Mr Kaufmann**—With the budget estimates and framework review and the increased focus on programs going further down the track, I think there will be more detailed information coming through out of that process.

**Senator CONROY**—Thanks. Administered appropriations lapse—is that right?

**Mr Kaufmann**—That is correct.

**Senator CONROY**—Why would there be any administered assets that represent the balance of unspent appropriations?

**Mr Kaufmann**—There are instances through the budget processes where, whilst they do lapse, they can be carried over within—

**Senator CONROY**—Are these administered expenses that have been rephased?

**Mr Kaufmann**—Correct. We are simply trying to capture those.

**Senator CONROY**—Well done! I note that departmental equity injections are now recognised in full as at the effective date of appropriation. Could you briefly recount the nature of an equity injection, and when were they previously being recognised?

**Mr Kaufmann**—Certainly in recent times they have always been recognised as effective, as I understand it, from the date of appropriation. Again, we put this requirement in just to reinforce that that particular requirement remains.

**Senator CONROY**—You must have an even more suspicious mind than me, Mr Kaufmann—and that is frightening.

**Mr Kaufmann**—It might be my auditor background. No, I am simply trying to create some disciplines, Senator.

**Senator CONROY**—Could you explain what is meant by ‘departmental appropriations permanently relinquished by an agency must be accounted for as a return of capital unless in the nature of a dividend or of a settlement of a liability to the government’?

**Mr Kaufmann**—This is where on occasions—they are rare, but it does happen—agencies put their hand up and say, ‘Look, circumstances have changed and we do not need this money anymore so we’re going to hand it back to the centre.’

**Senator CONROY**—Come on: name and shame them! Who broke the rules?

**Mr Kaufmann**—No, it is not about breaking rules.

**Senator CONROY**—I am talking about the informal role of never giving money back to Finance. Come on: who did it?

**Dr Watt**—Agencies do it quite often, Senator—sometimes with a bit of help.

**Senator CONROY**—He suggested they put up their hand. I want to meet these brave people. Drummed out of the Public Service!

**Senator MURRAY**—It is called the crowbar principle.

**Mr Kaufmann**—As I mentioned earlier, we have put in place some rules about how those returns back to the centre are to be accounted for, depending on whether the funding was provided originally by way of running costs or whether it was in the nature of capital. As I said, these returns do happen. And, with our move to just-in-time drawdown arrangements on the departmental side, they will be happening more frequently.

**Senator CONROY**—Have Defence put their hand up to hand any money back?

**Mr Kaufmann**—I think they did put their hand up earlier, as you alluded to.

**Senator CONROY**—Senator Minchin, I was congratulating you earlier on rolling Senator Hill, and it just goes on.

**Senator Minchin**—You cannot win them all.

**Senator CONROY**—He is just having a bad run.

**Dr Watt**—That is a technically different issue. Defence is not an unspent appropriation; it is simply that we are minding their cash that they do not need on the day-to-day basis—

**Senator CONROY**—I am sure they are enjoying the fact that you are minding it.

**Dr Watt**—They are very comfortable with that. They have a receivable and they know that they will get the cash back if they need it. They are quite happy. Defence have been very cooperative throughout the whole process of the framework and estimates review in this particular instance. They were interested in trialling the system earlier and it has been a very good trial for us.

**Senator CONROY**—I note that there is now an explicit requirement that current year departmental appropriations must be reduced by the amount of savings formerly offered up in portfolio additional estimates. What was previously happening?

**Mr Kaufmann**—There were not any specific disclosures coming through where savings had been offered up in, say, the additional estimates process to give you a net for the

appropriation for the year. What we are requiring now is that the full story that has happened during the year in terms of appropriations or anything offered up as savings be fully disclosed in the tables by way of note.

**Senator CONROY**—What is the rationale behind all Commonwealth agencies being now required to make a statement of solvency and/or to state the existence of an explicit guarantee by the Commonwealth in relation to the payment of their debts? Have you caught Transport here?

**Mr Kaufmann**—No. The finance minister's orders relate to both FMA agencies and to the CAC agencies and in particular the commercial CAC agencies that live off their own revenues. We are picking up here the standard certificate for directors: they must be no different from companies and sign off as to their solvency—that is, whether they can pay their debts as and when they fall due.

**Senator CONROY**—Anyone there that you have in mind in particular?

**Mr Kaufmann**—No, not at all.

**Senator CONROY**—Was any Commonwealth agency insolvent?

**Mr Kaufmann**—When it comes to Commonwealth agencies or typical departments or FMA agencies, the accounts disclose in the notes an economic dependency note. This is simply saying that the continuing operations of that department are reliant on parliamentary appropriations. It is never intended that there be insolvent agencies, because they always have, and have disclosed, an economic dependency relationship with the appropriations.

**Senator CONROY**—Why are Transport wandering off to talk to insolvency accountants?

**Mr Kaufmann**—I have no idea.

**Senator CONROY**—You have them coming up to see you soon?

**Dr Watt**—We do not have the benefit of having been at the hearings yesterday. I have only got the benefit of a very brief media report this morning in the *Australian Financial Review*.

**Senator CONROY**—Unfortunately a whole string of the media have reported on it.

**Dr Watt**—I did not necessarily take that media report as saying that transport went to that particular accounting practitioner because they thought they were insolvent. Nor do I take that report as saying that, while we monitor the health of departments and agencies and as a result of the budget framework and estimates review, we will be able to do more in future. Nor am I aware that Transport's financial position is such to suggest that they are anything like—

**Senator CONROY**—Will you be sending off a note to them asking for a please explain for what is happening—pop in for a friendly chat and a cup of coffee and an Iced Vo-Vo?

**Dr Watt**—I think the first thing I would do is have a look at the transcript to see what did transpire. As I said, I have only the very brief media report to go to. We are familiar with the financial health of most agencies. There are requirements in place when, for example, an agency wishes to report a loss—that has to be properly approved by the minister for finance. That is a good guide to an agency's health. As far as we are aware, Transport are not projecting losses in future years. That suggests that they do not have significant financial health problems. That is not to say that they may not find that things are squeezing; a number

of agencies do find that, but I am not aware that they are in such bad shape that consultation with insolvency practitioners is mandatory.

**Senator CONROY**—Was any CAC agency insolvent?

**Mr Kaufmann**—None that I am aware of, Senator. The sign of that for us would have been comments or a form of reporting by the auditors in terms of going concern issues. I am not aware of any.

**Senator CONROY**—Did any Commonwealth agency state that they had an explicit guarantee by the Commonwealth without following the approval process?

**Mr Kaufmann**—I am not aware of any.

**Mr McPhee**—I am not sure that we can get you a quick answer on that one. Can we take that on notice?

**Senator CONROY**—Yes. I note that, from now on, early adoption of an accounting standard requires Finance approval. Have agencies been adopting accounting standards early?

**Mr Kaufmann**—No.

**Senator CONROY**—I was going to say that is very optimistic.

**Mr Kaufmann**—And that is why we have that qualifier in there that they come and have a talk to us. We have to achieve consistency in accounting policy so we can do the consolidation. We do not want anyone adopting changes in accounting policies early. There is that qualifier that they need to come and talk to us.

**Senator CONROY**—Which agencies designated as business operations have not been following the legal requirement to report separately as well as continuing to be included in the agencies' financial statements?

**Mr Kaufmann**—This is a requirement this year to prepare a full set of financial statements. That is a mandatory requirement this year.

**Senator CONROY**—Is anyone not doing it?

**Mr Kaufmann**—Last year there were voluntary disclosures and, as I understand it, there were several smaller ones. But all the big ones, such as AQIS, the Royal Australian Mint et cetera, all prepared those.

**Senator CONROY**—Could you let us know which ones were not preparing them? You may need to take that on notice or come back to us a little later on today. How many business operations are there? I appreciate that there are big ones and little ones.

**Mr Kaufmann**—Just bear with me, Senator, I can get that information for you. The business operations that currently exist are the Aboriginal Benefit Account—

**Senator CONROY**—If it is a long list I am happy for you to table it.

**Mr Kaufmann**—No, it is not all that long. The others are the Australian Protective Services Account; the Australian Quarantine and Inspection Service Account; the National Residue Survey Test Account; Artbank, although Artbank is seeking a revocation at the moment; the Business Services Account, although I understand they have sought a revocation; the Rehabilitation Services Account, the Therapeutic Goods Administration Account, the

Australia Government Analytical Laboratory Account, the Australian Government Actuary Account, the Australian Valuation Office Account and the Royal Australian Mint and Coinage Account.

**Senator CONROY**—Does the ANAO include in its audit of the Commonwealth statements, report No. 25, an assessment of whether agencies adhere to finance ministers' orders when preparing these financial statements? Does someone else name and shame for you instead of you having to do it?

**Mr Kaufmann**—No. In the audit report on an entity's financial statements, the auditors give an opinion as to compliance with the finance minister's orders. So, if there has been a material departure from the finance minister's orders, I would think that would be reflected in the audit report.

**Senator CONROY**—If the business services trust account complied, would that help me follow that Dasfleet transaction?

**Mr Kaufmann**—I cannot answer that question.

**Dr Watt**—I think that one is a hypothetical, Senator.

**Senator CONROY**—Would it be possible for the business services trust account to comply with preparing these separate statements?

**Mr Kaufmann**—I understand that there is a revocation—

**Dr Watt**—I think we might have someone else answer the specifics of that question.

**Senator CONROY**—They have called in the big guns. The heavies have arrived!

**Mr Hodgson**—Could you repeat the question, Senator?

**Senator CONROY**—I asked if it were possible to get the business services trust account to comply with these rules. Who decides who gets an exemption? Why are they exempt from doing it?

**Mr Hodgson**—All I can say is that, in preparation of the accounts for the business services trust account, we comply with all requirements placed upon us.

**Senator CONROY**—I am asking if we can get some extra ones placed upon you.

**Mr Hodgson**—I would have to refer to my colleague Dominic Staun, who is the CFO.

**Mr Staun**—My understanding of BST is that it is not classified as a business operation. Therefore, we do not have to—

**Senator CONROY**—It is not a trust. I think we have had the—

**Mr Staun**—No, it is a special account. But it is not a business operation per se, and does not meet the definition. Therefore, it does not have to prepare separate—

**Senator CONROY**—It has not got an exemption from meeting these tests?

**Mr Staun**—It does not need to because it is not defined as a business operation.

**Senator CONROY**—Would it be possible for it to be defined as a business operation? Is that just the swish of a pen or do you think there are significant structural issues that could not be overcome?

**Mr Staun**—I am not sure who the experts are who actually define these. In my view, it clearly could not be defined as a business operation; it is simply an account designed to pay out issues arising out of the sale of former Dasfleet businesses. It is not a business operation in any sense of the word.

**Senator CONROY**—That is all I have. Thank you for your patience, Mr Kaufmann.

**Proceedings suspended from 12.33 p.m. to 1.44 p.m.**

**CHAIR**—Mr Staun, I believe you had a point of clarification you wanted to make.

**Mr Staun**—I wish to correct the record. In fact, the business services trust account has been determined as a business operation.

**Senator CONROY**—I guess that takes us back to the question of whether or not it has an exemption from these reporting rules.

**Mr Staun**—It has had an exemption since 1998 and under the FMOs last year we were not required to report business operations.

**Senator CONROY**—Dr Watt, why does it have an exemption?

**Dr Watt**—I am not entirely sure why it has an exemption. In the very old days of the trust fund, when DAS did run a large number of its business operations through that, it may have been quite reasonable to consider this to be a business and therefore for it to have an exemption. We are happy to look at that and come back to you.

**Senator CONROY**—It seems to satisfy all the other tests, and given the controversy around it—

**Dr Watt**—I appreciate that. I believe Mr Staun has something further to add.

**Mr Staun**—We do obviously report in the financial statements on property and Comcover. Certainly we will take under consideration whether further reporting will be necessary for the BSTA. Clearly, the BSTA is audited as part of our financial statements in any event.

**Dr Watt**—We will in future—and that will be from the end of this financial year onwards—report on the BSTA just as we report on property and Comcover.

**Senator CONROY**—That is not withdrawing the exemption? Who grants the exemption?

**Dr Watt**—The exemption was granted, as I understand it, back in the days of DAS.

**Mr Staun**—When it was DAS, yes.

**Dr Watt**—Which may be consistent with the fact that they ran so much of their business operations—

**Senator CONROY**—It has changed substantially, though. After 1998 a lot of things changed.

**Dr Watt**—I personally do not believe the exemption is appropriate and that is why I say we are happy to look at it.

**Senator CONROY**—So you think it had an exemption when it was DAS?

**Dr Watt**—That is right.

**Mr Staun**—And it certainly has continued through.

**Senator CONROY**—It has just morphed into a lot of other things, and it is not DAS anymore.

**Dr Watt**—No, it is not DAS anymore. I don't think the exemption is appropriate.

**Senator CONROY**—If the exemption was for DAS, and DAS is pretty much gone—

**Dr Watt**—I think the functions it was doing have gone, too. We don't know what drove that. I am speculating about what drove the exemption, but we will come back to you on why the exemption was granted, assuming we can find out.

**Senator CONROY**—And whether or not it is consistent with the status of it now given that, as you say, the functions of the entity are gone.

**Dr Watt**—We will not seek to keep that exemption.

**Senator CONROY**—Thanks.

**Dr Watt**—Senator, it might be worth mentioning something about the department of transport which you raised this morning. There are two things, to put some context around this. One is that the department's budget estimates do not project losses either for this financial year or for any of the next four years of the forward estimates period. This is in terms of both their accrued performance and their cash flow. The department, like all other government departments, is required to manage within the resources allocated to it. The department has publicly stated it is reviewing its activities to enable it to operate effectively within its resourcing. But I emphasise it is reviewing its activities to enable it to operate effectively within its allocated resources.

**Senator CONROY**—That sounds to me like code for: is it a going concern?

**Dr Watt**—I don't think it is. What the department is saying is that, like a number of other departments, they had some difficult choices to face and they intend to face them. I don't see that as code for whether it is a going concern. I also point out that the government did allocate the department \$15.2 million in departmental expenses for 2003-04 to meet the cost of implementing new measures in this budget, and also \$13.6 million for capital allowance. As I said, on the information that comes to us—and these are department statements and they are taken very seriously—the department is not projecting losses either in 2002-03 or in any of the forward years. I cannot speculate any further on what might have happened in estimates yesterday.

**Senator CONROY**—Thanks very much for that, Dr Watt. In 2002 I asked you about the management advisory committee.

**Dr Watt**—Yes.

**Senator CONROY**—You indicated that the report from the budget and resources subcommittee that you chaired was a high priority for you. You also indicated that you expected the report to be released 'over the next few months'. I asked again about this report at the May 2002 estimates and you indicated that the report would be released 'towards the end of the year' and that 'I do not think it is the long term'. I know we can debate 'long term' and 'short term'.

**Dr Watt**—Yes, you and I have had that discussion.

**Senator CONROY**—When will that report be released?

**Dr Watt**—What has transpired since you and I last spoke about this in May 2002 is that the government did the budget framework and estimates review, and that review really covered most of the same ground as the MAC subcommittee report, so it was decided not to proceed with the MAC subcommittee report. It had nothing to add to the budget framework and estimates review. Many of the things raised in the MAC subcommittee were picked up.

**Senator CONROY**—I appreciate that that review, what I will generously describe as, picked up those. I think that is a very accurate way to describe the issues that were perhaps raised in that. The question is: where is MAC? You promised it would be released. You did that on two separate occasions.

**Dr Watt**—Since May 2002 we have undertaken the budget framework and estimates review. That review and the implementation of it covered many of the things that were canvassed in the MAC report.

**Senator CONROY**—I appreciate that.

**Dr Watt**—For that reason the decision was taken not to proceed with the MAC report. It was never a final report.

**Senator CONROY**—You were finalising it when I was speaking to you, so it is not that the report was not completed.

**Dr Watt**—There is a draft of a report—that is correct. I would need to go back and refresh my memory as to exactly what I said, but there is a draft report—and that is correct—but it was a never a final draft. It never went to the management advisory committee itself for final tick-off. There are two reasons for this. One is that many of the issues raised in the MAC report were picked up in the framework and estimates review, and we all know what has happened to them. The other is that a number of changes in the framework and estimates review have meant that the financial framework on which the MAC report was being done is now somewhat different, and for that reason it is not appropriate to release it either.

**Senator CONROY**—I understand. It is just that you twice gave a commitment to the parliament, this committee, that you would release it.

**Dr Watt**—I will check that. I am happy to take your word, Senator.

**Senator CONROY**—I promise you that I am not verballing you, but you can check.

**Dr Watt**—I think I was accurate at the time I spoke to you on both occasions, but it was really following the work of the framework and estimates review, which did not start until after the May budget, so it only began in late May. But we appreciated that there was no point in releasing one.

**Senator CONROY**—I understand that you have responded to the issues in the MAC report and, as you know, I have welcomed them regularly. But a report was prepared: the MAC review consulted widely and received submissions from Commonwealth agencies and so a report was compiled. Now you are saying that there has only been a draft report and there is no final report.



**Dr Watt**—I think there was a draft report. There is no final report.

**Senator CONROY**—While I appreciate that drafts and final reports can often be different, is the draft report available, given your previous commitment?

**Dr Watt**—I think the answer to that would be no. MAC would not release a draft report now on that subject because the report (a) is dated and (b) the issues have been addressed in another way.

**Senator CONROY**—Unfortunately, parliament only gets to chat with you occasionally. While I know that I can phone you up—our officers do talk and your officers are always available whenever I ask—this is the formal forum where you gave a commitment to release the report. You have not been released from your commitment to us just because you have changed your mind. You have to come here and really say, ‘No, I’m not going to release it.’

**Dr Watt**—I think the answer is that, first of all, I was presumptuous if I did give that formal commitment that I would release the report, because it really is a matter not for me but for the management advisory committee. Obviously, as chair of the subcommittee—a job I inherited—I presumably have some influence over that, but in the end it would be up to the management advisory committee as a whole, not me.

**Senator CONROY**—I thought you were the chair.

**Dr Watt**—I was chairman of the subcommittee that did the work on the report. Rather, I inherited the chairmanship when I became Secretary to the Department of Finance and Administration.

**Senator CONROY**—I promise you that you used the word ‘release’, but I appreciate that you may want to look at the context. I assure you that I am not verballing you.

**Dr Watt**—I apologise if I have misled the committee. It was not my intention. But I do not think there is any value in releasing the report now. It has simply been overtaken by events.

**Senator CONROY**—Do you think the Senate might be able to make the judgment whether there is any value in the report?

**Dr Watt**—I think first and foremost it would be a matter for MAC and a matter for the government. We have done two things. One, we have had the budget framework and estimates review, which you are familiar with and which we are happy to talk about any time you like, as you know. That does pick up a large slice of what was in the MAC report.

**Senator CONROY**—We would like to be able to look at it to be able to agree with you. We would love to be in screaming agreement about the need for those reforms.

**Dr Watt**—Secondly, as we have changed the financial framework, some of the things canvassed in the MAC report you just simply would not discuss because the framework is different.

**Senator CONROY**—Will that submissions to the MAC report be made public?

**Dr Watt**—I was not chairman of the committee when those submissions were taken. If memory serves me correctly, many of those were oral submissions. The committee did consult widely; it did talk to a number of people. Many of those submissions would have been oral submissions. I do not know whether or not there were any written ones. I do not recall seeing

any but, again, I would have to refresh my memory. I do not think there is any value in releasing those submissions. I would see their input into the MAC report as no more than that.

**Senator CONROY**—You keep talking about the report as a finalised document.

**Dr Watt**—Input into the MAC deliberations.

**Senator CONROY**—I understand the submissions were scathing about the operation of the accrual financial framework. I agree with you that you have made major steps forward.

**Dr Watt**—As I did not see and did not participate in the consultation process, I could not comment on that. Government has indicated there were things it did want to change in the accrual framework and we are changing them.

**Senator CONROY**—I guess I can only express disappointment as we were hoping to see that MAC report and, like you, make a judgment on it, having not been part of that consultation process.

**Dr Watt**—I am sorry I have disappointed you.

**Senator SHERRY**—Could I indicate to the committee now, as I have to go to Immigration, that when we get to the public sector superannuation advice, which I am sure will be a little way away, I have some questions with respect to the costs of judges' and governor-generals' superannuation and I think that would be the appropriate place to raise those. I just want to let the committee know that it is my intention to ask some questions about those issues and others in that area.

**Dr Watt**—We are not sure, Senator, that this is the appropriate place. I am told that judges' superannuation is an issue for the Attorney-General's Department, not for us, and I believe that governor-generals' is an issue for the Department of the Prime Minister and Cabinet. I will see if we need to check that any further. No, I am widely assured that that is correct.

**Senator CONROY**—And there are a lot of relieved looking faces back there!

**Senator MURRAY**—PM&C has gone past us, but I would suggest that if Senator Sherry wanted to put those questions on notice I am sure the committee would accept them.

**Senator SHERRY**—I just thought in the context of public sector superannuation—they are a part of the public sector—when I am questioning on those issues there might be an officer who has information on those particular operations. It is not part of public sector super?

**Dr Watt**—I think the difference is we are responsible for the CSS and PSS but not those parts of the funds.

**Senator CONROY**—Did Finance consult with agencies about the 20 changes announced in the estimates memorandum last November before announcing the changes?

**Dr Watt**—I will just get the right person to answer that.

**Mr Prior**—There was a consultation process before those recommendations of the budget estimates framework review were finalised.

**Senator CONROY**—What was that process?

**Mr Prior**—There was a process: a working group was formed which was an IDC, basically—

**Senator CONROY**—Was this a subcommittee of MAC again? Or was this a separate one?

**Mr Prior**—No, it was separate to MAC. This is a subcommittee of the steering committee which oversaw the review.

**Senator CONROY**—What was the timeframe for that sort of consultation? Is it, say, a week, one meeting or a month?

**Mr Prior**—I do not have the exact details with me, but my recollection was that it was meeting monthly, essentially, and sometimes more regularly than that, depending on the issues. It commenced, if my memory serves me correctly, around March or April—early in the year—and met all the way through the year. The working group would often include other—

**Senator CONROY**—How many people were on this working group?

**Mr Prior**—The working group at the officer level comprised officers from Finance, Treasury, PM&C, AFFA and FACS, and then Defence was consulted at different times and A-G's was consulted at different times.

**Senator CONROY**—Of 30 departments, that does not sound like you have covered too many there.

**Dr Watt**—Thirty? I am not sure it was 30 departments, Senator. I think it was a number a good deal less than that.

**Senator CONROY**—There are 30 ministers, so I am prepared to give them the dubious honour of calling them ministers, which means that they have a department by constitutional requirement.

**Dr Watt**—I think there are 16 to 17 departments. If you are interested, we can give you the dates when the steering group started and finished work. I think my own recollection is that it was more like April or May that we actually started.

**Mr Prior**—Yes.

**Dr Watt**—It may have been May—and we would not have been doing much until after the budget.

**Senator CONROY**—So this would have been running in parallel to the MAC?

**Dr Watt**—There was no work done on the MAC in the calendar year 2002.

**Senator CONROY**—It is just that, in February 2002, when I first asked you about it, you indicated that the report from the budget and resources subcommittee that you chaired was a high priority for you but you were not doing anything, and you continued not to do anything. Is that what you are saying?

**Dr Watt**—I think it was a high priority to get the report out, but I think it was also a matter of looking at the context of budget framework and estimates reviews.

**Senator CONROY**—But in May you again indicated that you expected the report to be released over the next few months.

**Dr Watt**—I did. The report was to a stage where, had it been proceeded with, it could have been released very quickly.

**Senator CONROY**—So, even though you knew at that point, in May 2002, there had been no work done on it—

**Dr Watt**—At that stage we did not know which way the budget framework and estimates review committee response would take us, nor did we know what the results of that report would be. It was terra incognita.

**Senator CONROY**—I will not say that they were working in parallel, because one of them obviously was not working; it was sitting quietly in your drawer—

**Dr Watt**—It was never in my drawer, Senator. One stopped, and the other one started a bit later.

**Senator CONROY**—So there was no overlap per se. When was the first meeting of the IDC?

**Mr Prior**—As I say, I do not have those details on me but I can certainly get them to you. My recollection is that it was in the early part of the year, in April or May—around that time. It certainly started properly after budget; that is when the real work started.

**Senator CONROY**—At the May budget estimates, it appeared that there was still work being done and that the report was going to be released—that is what Dr Watt said—whereas you are saying now that, with the formation of the IDC and going in the other direction, essentially they have wound down. I am trying to get a fix on the timing. There seems to be a small contradiction.

**Dr Watt**—As I said, we are happy to check the timing. You asked me in February where the process was at. I indicated that the subcommittee had not yet finalised its report, although it was in an advanced stage. I said it would go to the full committee of MAC for discussion. I said there might be some comment others wished to make and other views to take on and so forth and that there might need to be further work done.

**Senator CONROY**—But no more work was done. You just said no work was done on the report from December.

**Dr Watt**—Let me finish, Senator. I said there might need to be further work done. I also said that I hoped it would be released over the next few months, other work permitting. As we were into the budget at that time, there were a number of priorities we were trying to juggle. When we spoke about this in May, you again raised the question of the report being high priority. You asked me if it had been completed. I said that at that stage we had put the report temporarily on hold. I indicated to you that it was put on hold for a couple of reasons. One was the pressure of other budget related work and the resources of the department, and the other reason was that we wanted to have a good look at—

**Senator CONROY**—But it was not on hold at that point, according to Mr Prior; you had stopped the process and started a different process. It was not an ‘on hold’ thing.

**Dr Watt**—I said it had been put on hold. I said we wanted to take the opportunity to have a good look at the broad budget framework—that was the budget framework and estimates

review. We thought it might be better to have a clean look at a few things with the budget framework and estimates review rather than push out a report that had been kicked off six or eight months ago. Against the possibility—

**Senator CONROY**—Keep reading. In answer to a question, you indicated it would be released towards the end of the year, and I do not think that is the long term—because we were having one of those long term short term discussions, if you keep reading.

**Dr Watt**—That is right. I said—

**Senator CONROY**—Whereas, in effect, it had been killed. The MAC subcommittee must have made a decision to grind down the other process for the IDC committee to be formed.

**Dr Watt**—That is incorrect. At that stage there had been no decision. Again, I can check my notes. I am happy to go back and check the record in this, but my recollection is that at that stage there had been no discussion about the final fate of this report at the MAC subcommittee. I will check the records and come back to you.

**Senator CONROY**—So did the MAC subcommittee—

**Dr Watt**—Sorry. There had been no discussion about the fate of this report by MAC as a whole.

**Senator CONROY**—Who made the decision to put it on hold?

**Dr Watt**—Again I would need to check my records. I believe it was done in consultation.

**Senator CONROY**—Not at a meeting? Does ‘in consultation’ form a meeting?

**Dr Watt**—If memory serves me correctly, I believe I discussed it with the chairman of MAC, who was the secretary of the Department of the Prime Minister and Cabinet. My discussions with him were in the light of the work that was being done on the budget framework and estimates review, and the other pressures on the department.

**Senator CONROY**—You indicated earlier that the IDC, which was reviewing the framework, was responding to issues raised in MAC.

**Dr Watt**—I think the answer is that it picked up a lot of the issues in MAC. Some of the issues had been covered in MAC—indeed, many of them.

**Senator CONROY**—I am sure it was most of them.

**Dr Watt**—No. It did not pick up on most of them. Some things that would have been covered by the draft MAC report were particular to the framework that existed as at November 2001. Clearly the budget framework and estimates review indicated some changes to the framework. I am happy to check the record and come back to you.

**Senator CONROY**—I would like to ask about the workload associated with preparing this year’s budget. How did it compare with last year? Last year was the first time it had gone through the process.

**Dr Watt**—I have done a large number of budgets, Senator.

**Senator CONROY**—Not as head of Finance. I am sure that as head of Finance you have an enormous amount of extra responsibilities.

**Dr Watt**—I think the department as a whole found that the workload was greater this year than it had been last year. I think that is a reflection of the fact that there were more issues on the table for the government this time around. For example, one index of this is the budget measures document. We have not gone to the extent of comparing the number of measures announced in last year's budget with the number of measures announced in this year's budget. But I would guess that they are significantly greater in this year's budget. I will ask one of my colleagues to confirm that—Mr Bowen may be able to do that.

**Mr Bowen**—I can confirm it is greater in number; I cannot tell you the actual number.

**Dr Watt**—We can get you the numbers now. That is one index to the fact that there was more work involved. It is not only the number of measures that drive the work requirements for the department of finance but it is—

**Senator CONROY**—I am sure that when the government threw the tax cuts in at the last possible moment it did not slow the process down—that would have gone 'whoa!' They have said they only put them in during the last few days. The PM was over on the ranch and the Treasurer was beavering away merrily, so I am sure having \$2.4 billion worth of tax cuts suddenly thrown into the mix must have caused a bit of excess stress for your officers.

**Dr Watt**—I think the department can respond to last minute changes, whether they are large or small. In some ways, it is the change rather than the size of the change that has the impact.

**Senator CONROY**—You also took on responsibility for forward estimates which was a change you announced in November. Didn't that include taking a slightly more formalised role?

**Dr Watt**—I am not sure what you mean.

**Senator CONROY**—It means you had more work.

**Dr Watt**—If you mean the changes we announced in response to the budget framework and estimates review which indicated that we would have a collaborative model in relation to estimates production, I do not think that added to our workload. I think that that side of it went very smoothly.

**Senator CONROY**—You have the final say now. You have put a lot more rigour back into the departments' processes.

**Dr Watt**—Should it ever be needed—and I emphasise 'should'—the Department of Finance and Administration does have the ability to veto a department's estimate.

**Senator CONROY**—I am sure that led to a bit more scrutiny by your officers.

**Dr Watt**—I can also assure you that as long as I am Secretary to the Department of Finance and Administration we will never need that. I do not believe we will ever need it.

**Senator CONROY**—Were staff required to work overtime in order to complete the budget preparation?

**Dr Watt**—I do not think there has ever been a budget done without staff working much longer than normal hours.

**Senator CONROY**—You indicated earlier that there was a bit more work. Was a greater level of overtime needed this time around?

**Dr Watt**—My assessment would be that there was a greater level of work outside normal hours.

**Senator CONROY**—Are any records maintained of staff overtime? Do you keep track of it?

**Mr Bowen**—No. This is probably a question for my colleague, but for many years we have not had a formal overtime allowance within the department. I believe that was negotiated in the 1997 certified agreement.

**Senator CONROY**—So are you paid on the number of hours or is there a fixed overtime allowance—or is there neither of the above?

**Mr Bowen**—Neither of the above. We are paid a salary that has a number of components but it is an annualised salary. We are paid for an output; we are not paid for the amount of time that we work.

**Senator CONROY**—So are any records maintained of staff working longer hours? I will not call it ‘overtime’ because that implies a pecuniary issue. Is a record kept of the amount of hours staff work?

**Mr Bowen**—There are no formal records because there is no formal requirement for people to keep records. In terms of the budget process, as Dr Watt has said, every budget is conducted in a fairly intensive environment—and perhaps an intense environment. We do, as best we can, monitor the time that our people spend and we try to give people relief as we can. We also try to ensure that we have the appropriate level of resources there to back people up.

**Senator CONROY**—So you do have an informal monitor?

**Mr Bowen**—Every manager monitors their staff and the time they put in with the aim of ensuring that we do not overwork our people. Having said that, of course, people have worked very long and very hard to get this budget done.

**Dr Watt**—Let me put it this way: Mr Bowen and I have a long-term interest in the state of health of our staff. We need to keep good people and we need to attract good people to the Department of Finance and Administration Budget Group and more generally because, while the burden of the budget falls importantly on the Budget Group in the department, it is far from the only area affected. A number of areas carry a similar heavy load; they perhaps get a little bit of public credit. We do monitor the state of our staff intensely during this period. We try to rest them when we can and we try to minimise efforts when we can. But we are driven by an ERC and a cabinet process which we have to meet and achieve and we do that and we take great pride in that.

**Senator CONROY**—I appreciate that.

**Dr Watt**—Once the shouting has stopped, we try to make some small recompense to staff by offering them time off in lieu for the additional hours they have worked. It is nothing like one to one but at least it is some formal recompense for people who have put in extra effort.

We have a performance assessment system which again provides some monetary recompense for the additional effort that staff put in.

**Senator CONROY**—What was that called?

**Dr Watt**—A performance assessment system, and a performance bonus system. The bonus is the monetary component.

**Senator CONROY**—Mr Bowen, you indicated that each manager—and Dr Watt did the same—keeps track of the amount of overtime or extra hours being worked.

**Dr Watt**—We keep track of the pressure on our staff and the extent to which people are around. We don't maintain records, but both Mr Bowen and I are in the building during the budget period for a surprising amount of time.

**Senator CONROY**—I am sure you are. I was just wondering how it compared to last year. You indicated there was more work this time around, so I was wondering whether there was an increase in the amount of extra hours people had to work just to cover off on all the extra workload. Commonsense says that would be the case.

**Mr Bowen**—I think it is fair to say that people did work longer hours this year than last, and that reflects the facts that Dr Watt put on the table earlier about this being a larger effort—a larger budget and a more complex budget this time.

**Senator CONROY**—I accept that. Given the remuneration structure that you have outlined, I am assuming none of this was on a paid basis—the extra hours?

**Mr Bowen**—You could say that, Senator, or you could say that all of it was on a paid basis. We are all paid an annual salary and we choose to be in the jobs that we are in.

**Senator CONROY**—I accept the point you make. In terms of the performance assessment and bonus, were any bonuses handed out as a result of the process?

**Dr Watt**—We are going through the assessment process now. The budget efforts are just like the efforts of a number of areas during the year as a whole, because budget is not the only big show that we do. For example, we may wish to recognise performance in relation to Senate estimates. That is one of the biggest shows we do in the year.

**Senator CONROY**—Hopefully no-one gets a performance bonus just for sitting in here and chatting with me.

**Dr Watt**—Nevertheless it is a big event for the department, just like the budget is a big event. We try to recognise all the big events in which the department participates in the year, as part of our performance assessment arrangements.

**Senator CONROY**—So you are going through this performance assessment and bonus process at the moment.

**Dr Watt**—Yes.

**Senator CONROY**—That is the method by which people could be given extra compensation. There is no other method?

**Dr Watt**—Extra direct monetary, Senator.



**Senator CONROY**—Going back to what you said about appreciating that it was not day for day or hour for hour, how was that determined? Was it in the hands of the managers?

**Dr Watt**—This is a matter for individual managers. I think people generally expect two things: one is that there will be some recognition in terms of time off and the other is that it is certainly nothing like one to one. It is probably a ratio of several to one. Nevertheless it is some small recognition for the hours people work. This is another way of looking at it: if you are in the Budget Group of the Department of Finance and Administration, you would expect to have a few nights where you did not get a lot of sleep during the budget period. I think all our officers come to us with that expectation, and they do it because it is a great training ground for people. There are not many spots in the bureaucracy where you have a real sense of how government works and operates and what government is doing. One of the best places to get it—not the only place—is the Department of Finance and Administration.

**Senator CONROY**—That is why I like being in this portfolio, like yourself. Now you have really dropped me in it: my own staff are now petitioning me for performance assessment and bonuses for Senate estimates.

**Mr Bowen**—It might also be worth putting on the record that, for this budget, the Budget Group itself had about 20 per cent additional staff than we had for the previous budget. Those figures are a little loose, but they are of that order. In part, of course, that stems from the outcome of the budget estimates review and the recognition that we needed more staff to do the work. We quite actively recruited for the Budget Group at the beginning of July in this financial year—so nearly 12 months ago. From memory, we had 130 full-time equivalents. We now have somewhere of the order of 160 and we are continuing to actively recruit with a view to next year—

**Senator CONROY**—What do you think is an ideal number for you? Let me put Dr Watt on the spot for you. What do you reckon is an ideal number for your group?

**Mr Bowen**—I will tell you the number.

**Dr Watt**—We have a defined endpoint, Senator.

**Mr Bowen**—Our estimate is that we will have 175 next year and slightly over 200 in the following year.

**Senator CONROY**—Really. So you are almost 50 people down over the last few years in terms of what you actually think you need.

**Mr Bowen**—There had been a reduction in numbers—I think we talked about that once before.

**Senator CONROY**—We did.

**Mr Bowen**—The government made available funding last MYEFO for the additional staff.

**Senator CONROY**—As you know, I am all for Finance being returned to a centre of excellence in the service.

**Dr Watt**—Remember that we are being asked to do a different job by the government. We will not be doing just the job we were doing a couple of years ago.

**Senator CONROY**—You have your job back.

**Dr Watt**—We are doing a more active, more involved job under slightly different circumstances, and the government has very reasonably recognised that involves additional resources.

**Senator CONROY**—Well done for convincing them that it was necessary.

**Dr Watt**—Much of our resourcing at this stage—Mr Bowen talks about the rise in numbers—has come through new graduates. We have the view that, if we try and recruit our additional staff laterally, then we will just finish up taking them from elsewhere in the APS, by and large. We might take a few from outside, but they will mainly be from elsewhere in the APS. That is counterproductive because, in turn, we will lose staff to those agencies who have lost staff to us. So we are trying to grow the pool as a whole.

**Senator CONROY**—I am barracking for Senator Minchin's growing empire.

**Senator Minchin**—Thank you, Steve.

**Senator CONROY**—I understand Finance has made a presentation to the OECD about the changes to the accrual budgeting framework. Is that correct?

**Mr Bowen**—We have made various presentations from time to time.

**Mr Prior**—Just before I answer that question, you did ask previously about when the IDC first commenced in terms of review. I have been advised that 7 June was the first working group meeting.

**Senator CONROY**—That is quite a bit later. You thought it was April or May.

**Mr Prior**—I was thinking about when we started thinking about it and working on it. It was a joint Treasury exercise and we had to do preparatory work and so on. We commenced back then but the first actual working group did not come together until 7 June.

**Senator CONROY**—But you started looking at it in April or May.

**Mr Prior**—We had to start planning for it.

**Senator CONROY**—Sure. I was asking about the OECD presentation.

**Mr Prior**—I was at the OECD earlier this year and at that meeting there was discussion about developments—as there is usually—that are occurring in different countries in terms of budgeting. There was discussion at that meeting about—

**Senator CONROY**—I understand it was a presentation rather than just a discussion—you stand up, present slides, that sort of thing.

**Mr Prior**—No.

**Senator CONROY**—Was it just a paper?

**Mr Prior**—Mr Kaufmann was with me as well. I do not recall there being slides and so on. There were presentations and slides and so on from many of the other participants. That is organised in advance. The IMF, for instance, did a presentation on the GSF framework et cetera.

**Mr Kaufmann**—We did a presentation on the harmonisation process but nothing with regard to what you asked about.

**Senator CONROY**—I am talking about the accrual budgeting framework.

**Mr Prior**—I do not recall a presentation; I recall talking about it.

**Senator CONROY**—So you stood up in front of some people—

**Mr Prior**—No. It was in this kind of context—around a square table. People would refer to Australia: ‘Can you talk about what is happening in Australia?’ So I talked about it.

**Senator CONROY**—We now have a common understanding of the word ‘presentation’, which is good. When was that presentation made? You obviously made it Mr Prior, or did Mr Kaufmann make it?

**Mr Prior**—We jointly presented it; we were there jointly. It was in February I recall.

**Mr Kaufmann**—It was in February. Don’t quote me on the dates, but it was about 20 February.

**Senator CONROY**—Did the OECD request the presentation or did we volunteer it?

**Mr Prior**—We would have to check the records.

**Mr Kaufmann**—They asked us to do a presentation on the harmonisation process, but that was all they asked us to do.

**Senator CONROY**—So we tossed in the accruals—the update on where we were at—for free?

**Mr Prior**—We referred to what was happening in Australia, correct. That is the normal process.

**Senator CONROY**—Sure. So there were you and Mr Kaufmann. Did anyone else attend the presentation?

**Mr Prior**—From the department?

**Senator CONROY**—Yes.

**Mr Prior**—No.

**Dr Watt**—They were discussions, I think, Senator, not a presentation.

**Senator CONROY**—I thought we had a common definition of ‘presentation’.

**Dr Watt**—You have been to these OECD things, Senator; it takes about four hours to get around the table.

**Senator CONROY**—I was just going to ask who else was there.

**Mr Kaufmann**—From Australia, Senator, or from—

**Senator CONROY**—If anyone else from Australia was present, I would be interested in that. Were all 32 OECD nations present? I presume that it would take longer than four hours to go around the room if they were.

**Mr Kaufmann**—I can give you an idea. I can’t—

**Senator CONROY**—I am happy for you to take it on notice, if you like, and you can let us know who was there.

**Mr Prior**—Who was at the presentation? All the OECD countries: France, England, America, Canada, New Zealand, Australia—

**Mr Kaufmann**—The IMF, Eurostat—

**Mr Prior**—the World Bank—we can give you a list.

**Senator CONROY**—Yes, that would be great. Was anyone else from Australia present? Were any other departments or state departments present?

**Mr Kaufmann**—There were no other government departments.

**Mr Prior**—There certainly were other Australians there.

**Mr Kaufmann**—There were other Australians there.

**Senator CONROY**—But not representing—

**Mr Kaufmann**—For instance, the former Chairman of the Australian Accounting Standards Board was there as an observer. The chairman and CEO of the IFAC Public Sector Committee, who are Australians, were there.

**Mr Prior**—A member of the IMF, an Australian, was there.

**Senator CONROY**—Mr Callaghan—is he the IMF guy?

**Mr Prior**—Mr Cotterell—he was there.

**Senator CONROY**—Are the notes that you spoke from publicly available?

**Mr Prior**—The notes—

**Senator CONROY**—Your presentation—I was trying not to use the word because I did not want Dr Watt to pull me up. For the purposes of what we talked about, the presentation—

**Mr Kaufmann**—The presentation I provided, which was on the harmonisation process, I would have to—

**Mr Prior**—In terms of what I presented, it was referring to the list of recommendations, and it was a discussion like this. It was not a formal presentation as such. It was not a formal documentation that was presented, it was more of this question and answer discussion approach.

**Senator CONROY**—Mr Kaufmann, is yours available?

**Mr Kaufmann**—I would have to discuss that with my department.

**Senator CONROY**—Is there a record of the discussion?

**Mr Prior**—Minutes of the meetings are kept and I understand that they are publicly available.

**Senator CONROY**—Are they available?

**Mr Prior**—I understand so; I have not seen them in the sense of the OECD—

**Mr Kaufmann**—The OECD took the minutes.

**Senator CONROY**—I was not aware that they were a secret organisation.

**Mr Prior**—No.

**Dr Watt**—We are happy, if they are publicly available, to see that they are made available to you, Senator. That is a matter for the OECD, not for us.

**Senator CONROY**—I understand that such previous presentations have been made available on your web site.

**Dr Watt**—We are also happy to look at making available what Mr Kaufmann and Mr Prior said are discussions. It is years since I have been to an OECD meeting, Senator—in fact it is well over a decade—but my recollection of them is that you sit around—

**Senator CONROY**—They're pretty dry things. I wouldn't have thought there would be too much to worry about in there.

**Dr Watt**—They are not very exciting; they are good, solid, technical stuff.

**Senator CONROY**—I understand what you mean.

**Dr Watt**—But they are very much in relation to this sort of discussion. There is little formality in the presentation—no slide shows or anything like that.

**Senator CONROY**—The other officers indicated that there were a few slide shows.

**Mr Prior**—There was in this case. The IMF did a particular slide show on GFS AAS—

**Senator CONROY**—We need to get you back over there soon, Dr Watt.

**Mr Prior**—The papers that are presented in a formal sense in advance of the meeting are publicly available, as I understand it. They are mailed out to member countries and they are on the OECD's web site at any time.

**Senator CONROY**—I was just going to suggest having a hyperlink when you put your documents up, if people are interested in getting the rest of them through the OECD web site. It is just a suggestion. Have you made any public presentations or had any chats like this on the changes to the accrual financial framework here in Australia? Have you presented to any conferences or—

**Mr Prior**—No.

**Senator CONROY**—Anything external to your own department or to the public?

**Mr Prior**—No. There have been presentations to departments, and that is ongoing as part of the communication process. There was one presentation to portfolios and their providers earlier on—I have not got the exact date—at the National Library, but it was a closed shop in the sense that it was not available to the public. It was not available to providers at large; it was to give the agencies, as a group, a heads-up of what was happening.

**Senator CONROY**—Are you shy?

**Mr Prior**—Am I shy?

**Senator CONROY**—You have not had an invitation to any public forums to extol the virtues?

**Mr Prior**—I am not shy, if that is the question.

**Senator CONROY**—You have not done any presentations at all?

**Mr Prior**—No, we have not.

**Senator CONROY**—It is time to get your light out from under that bushel, Mr Prior.

**Mr Prior**—I don't quite understand the question. Part of the implementation, as you are aware, is the redevelopment of AIMS—the system. We have therefore got two information issues at hand. One is to help agencies understand the developments and so on. There is also an issue of the redevelopment, and we have to carefully manage information going forward. As we may turn to the market to assist in the redevelopment of that system, we have to manage the probity issues surrounding it.

**Senator CONROY**—You have intellectual property to protect, I understand.

**Mr Prior**—No, I think it is more about procurement. If we go to the market to seek assistance in the redevelopment of the system, we have to be careful that the market is not unfairly informed—that one part of the market does not get more information ahead of another. So there is a strategy in place for informing potential providers, if we should go to the market for redevelopment assistance. In terms of going to presentations, my recollection is that we have only been invited to one other presentation, apart from the agencies, and that was the PSMP.

**Mr Bowen**—The Institute of Public Administration.

**Mr Prior**—We are talking to them about the timing of when we might do that presentation. That is upcoming.

**Senator CONROY**—Keep us in the loop. During the last round of estimates, I asked about a statement from the finance minister contained within the consolidated financial statements, which said:

The continued generation of positive cash flows has enabled the repayment of some \$41.3 billion in total Commonwealth debt since 30 June 1996.

An answer to a question on notice, F5, provided further information on this issue.

**Dr Watt**—That is correct.

**Senator CONROY**—I just thought there might be some people coming up to the table, but they have abandoned you.

**Dr Watt**—We are finding some fresh fodder for you, Senator Conroy.

**Senator CONROY**—That information showed that, over the six years to 30 June 2002, the government has raised \$95.1 billion of proceeds. This includes cumulative surpluses of \$32.9 billion; net advances, loans and other investing cash of \$4 billion; and asset sales of \$58.1 billion.

**Dr Watt**—I am not sure that all of that is in F5, unless you are quoting from the table.

**Senator CONROY**—Yes, I think I might be. I will just go to my papers.

**Dr Watt**—We are just getting into our rhythm. Senator Conroy, would you mind repeating the question now that we have the papers.

**Senator CONROY**—I have not actually asked one. I was just running through the information in F5. Could you please explain what are the 'net advances, loans and other investing cash' which are worth 4 billion?

**Mr Ash**—Do you mean question F6 about the use of proceeds of asset sales—table 1?

**Dr Watt**—That is why we were having trouble locating it. It is F6.

**Senator CONROY**—My apologies.

**Mr Ash**—That includes, for example, the movement in the Higher Education Contribution Scheme, the student loans and the loans to states, territories and Papua New Guinea.

**Senator CONROY**—Is it possible to get a breakdown of the components?

**Mr Ash**—With the HECS scheme, there was a movement of about \$4.4 billion. With the loans to states and territories, there was a movement in the other direction of \$5.7 billion. We are getting further information on the remainder.

**Senator CONROY**—On Papua New Guinea?

**Mr Ash**—That \$5.7 billion was for the states, the territories and Papua New Guinea.

**Dr Watt**—We will see whether we can get you that before the end of the day.

**Senator CONROY**—Can you explain why the proceeds from the asset sales programs, excluding property and developments, are reported at \$46.5 billion in the answer to question F5—or it may be question F6—when DOFA's web site lists asset sales over the same period worth \$51 billion?

**Mr Ash**—If we go back to the question that this relates to, the \$46.5 billion is the asset sales program itself, which is part of the \$58.1 billion figure you discussed at the last estimates period. Can you tell us specifically what your question about the new web site relates to?

**Senator CONROY**—I was referring to the summary on the DOFA web site of the asset sales of past projects.

**Mr Ash**—We will have to take that one on notice.

**Dr Watt**—We will get you an answer by the end of the day.

**Senator CONROY**—I can give you a copy of that web page to help us. I am trying to find out why there is a difference.

**Dr Watt**—I am sure it was done on a different basis, and we will confirm the basis.

**Senator CONROY**—I am sure it was and I am sure it has to do with the word 'net'. There is a summary on the front of that copy. It totals \$51 billion. Sorry, it is my office's summary.

**Dr Watt**—You are adding up, as I understand it, the sum of what is called 'trade sales managed by the Commonwealth' and share offers—is that correct?

**Senator CONROY**—This would be the asset sales programs excluding property investments.

**Mr Jackson**—You are only comparing from 1 July 1996 to 30 June 2002?

**Senator CONROY**—The first thing I have got is December 1996, Commonwealth Funds Management, and then I run through to October 1999, Telstra 2. I can run through them individually if that—

**Dr Watt**—We have got the same material in front of us that you have now. We will have a very quick look at this and come back to you. Clearly, these look like the proceeds of individual asset sales managed by the Office of Asset Sales, and now by the asset sales branch of the department of finance. It therefore makes me wonder whether the basis is comparable with what is in the answer to question F6, but that is what we will check for you. We will have an answer very shortly. It is clear they have done it differently. They are different aggregates in the sense that one looks like it comes from the raw proceeds of asset sales; the other may be a more worked over number. We will come back to you on what the difference is as quickly as we can. But they are not the same data set, that is the point I am making.

**Senator CONROY**—But fundamentally they should be the same assets.

**Dr Watt**—They may be the same assets but, for example, are we dealing with net or gross?

**Senator CONROY**—I am sure the discrepancy is going to be a net issue.

**Dr Watt**—You might remember that on some occasions we sold assets with liabilities attached to them, which meant that the net and gross are quite different—

**Senator CONROY**—Okay—assets with liabilities. I will just run down the list that I have got: Commonwealth Funds Management—any liability with that asset?

**Dr Watt**—Off the top of our heads, Senator, we are unlikely to be able to answer all of these with regard to whether there were any liabilities attached to them or not. I am happy to indicate that there were a couple where we know there were liabilities attached and we can check whether there were any liabilities attached to the others. Mr Yarra might be able to tell you whether there were liabilities attached to a couple of the major sales.

**Mr Yarra**—We know that there are no liabilities attached to those sales. We did a share sale as opposed to an asset sale. For example, the most recent sales, Sydney Airport Corporation and Essendon airport and those sorts of sales, were share sales so we just sold the shares and the liabilities and the assets of the entity went across with the sale. The phase 2 airports, for example, from memory, were an asset sale out of the Federal Airports Corporation so we would have had a differential treatment of assets and liabilities there and I do not know the outcome of that.

**Senator MURRAY**—There were no guarantees attached to that?

**Mr Yarra**—Do you mean rents and warranties?

**Senator MURRAY**—Warranties and indemnities and guarantees.

**Mr Yarra**—That will be done sale agreement by sale agreement.

**Senator MURRAY**—But what of that particular example you just gave—the Sydney airport sale?

**Mr Yarra**—The Sydney airport sale was a very clean sale in terms of our undertakings.

**Senator MURRAY**—No indemnities and no guarantees and no warranties?

**Mr Yarra**—We gave one warranty. We warranted that we owned the shares and then we capped the warranty of the dollar, so in exposure terms for the Commonwealth it is a minimum exposure.



**Dr Watt**—Senator Murray, I think the point to make is that the existence of a guarantee or an indemnity would not necessarily be offset against the purchase price, even though there is a liability attached to it.

**Senator MURRAY**—I understand that.

**Dr Watt**—For example, with the Sydney Airport Corporation sale there was some repayment of debt that was also passed to the sale person, and that went across and the process was different.

**Senator CONROY**—I thought the price was lower because there was liability going across, if my recollection is correct.

**Mr Yarra**—That is correct—\$1.3 billion in debt.

**Senator MURRAY**—What is in my head is whether there is a contingent liability.

**Dr Watt**—That is correct, and some of these had contingent liabilities. Again, particularly for the ones that were done several years ago, we would need to go back and have a look at the details of the sales, but those could be looked at if necessary.

**Senator MURRAY**—Without being picky, debt is one class of liability and contingent liability is another class.

**Dr Watt**—That is correct. As you aware, in terms of our asset sales we always try to avoid contingent liabilities if we can at all, but sometimes you simply cannot.

**Senator CONROY**—Let us move to a notional basis. I was asking whether the \$51 billion and the \$58 billion did not quite match up. Let us assume it is a net issue. If this is a net figure—that is, the net of these corporations' liabilities—shouldn't the payment of these liabilities be listed under repayment of borrowings, not sources of funds?

**Mr Yarra**—In terms of accounting?

**Senator CONROY**—Yes.

**Mr Yarra**—The liabilities of the entity?

**Senator CONROY**—It is just that I would have thought that you would have listed the two bits separately—revenue in and liability.

**Mr Yarra**—To take a simple transaction like a share sale, we were paid for our shareholding and that is the sum total of the transaction. We received proceeds in for those shares. Factored into that, the price of those shares is the liability of Sydney Airport Corporation Ltd et cetera. So in that style of transaction—

**Senator CONROY**—There is just money coming in.

**Mr Yarra**—That is all. We are selling an asset and it is valued with all of the liabilities factored into that value.

**Senator CONROY**—My issue is a liability that can be listed as a source of funds—that is all.

**Mr Yarra**—The liability that may occur in a transaction—and I cannot say which—would be left behind with the Commonwealth, so the transaction would happen and the

Commonwealth would be left with that liability. That should be recorded in the books in the way in which liability should be recorded.

**Senator CONROY**—That is my point.

**Mr Yarra**—So it is only those transactions where we have left liabilities behind, and we need to check that.

**Mr McPhee**—This is a different style of financial report. Rather than having assets and liabilities, it is showing the sources of funds. The sources of funds can be operating surpluses or sale proceeds but they can also be borrowings, because they actually provide funds for the business. So this is where the funds are coming from and where they are being applied. It is a different style of financial report, but it explains how funds raised by the Commonwealth are being applied.

**Senator CONROY**—But when you add them up and they come to only 51?

**Mr McPhee**—That is a different issue. You are just trying to understand why there is a difference. As you said, there may be some netting going on in here.

**Senator CONROY**—I am just trying to understand the way it has been set out.

**Mr McPhee**—For instance, in accounting it is often quite legitimate to offset the sales expenses against the sales proceeds. It may be that one of the figures is a gross figure of the sales proceeds and maybe one of the others is a net figure with offset sales expenses. But until we do the investigation, we will not know.

**Dr Watt**—A moment ago you mentioned a figure of \$51 billion.

**Senator CONROY**—Yes, \$51 billion. That is my rough total.

**Dr Watt**—I think we are getting a different number.

**Senator CONROY**—Can I run down what I have put in and then perhaps you can say, ‘No, this one should have been in and this one should have been out’? It will only take a few seconds.

**Dr Watt**—Why don’t you do that?

**Senator CONROY**—Commonwealth Funds Management; Avalon Airport; phase 1 airports, Dasfleet; AIDC; ANRC; DAS; HLIC; the former McLeod Repatriation Hospital site; Australia Multimedia Enterprise Ltd; phase 2 airports; Auscript; National Transmission Network; Australian River Co; ADI Removals; ARAP; Essendon; NRC, in New South Wales; FreightCorp; Sydney airport; ComBank 3; and Telstra T1 and T2. The repatriation hospital site might possibly fall into the property category.

**Dr Watt**—It may. We will go away and turn the handle on the calculator again.

**Senator CONROY**—Did I miss any? Just for the record, I get that to total \$51.039 billion.

**Dr Watt**—We will go away and check our calculations again but when we use our calculator we get—

**Mr Yarra**—We are getting \$46 billion on that sheet.

**Dr Watt**—We will go away and crosscheck our numbers and come back to you.

**Senator CONROY**—As I said, whichever way we look at these numbers, was the Minister for Finance and Administration correct in stating in the audited consolidated statements that the continued generation of positive cash flows has enabled the repayment of some \$41.3 billion in total Commonwealth debt since 30 June 1996?

**Mr Ash**—If you go back to answer F5, \$41.3 billion is generated from the movement in the interest bearing liabilities for the whole of government balance sheet, which, based on the table at page 23 of last year's CFS, moved from—I am sorry, let me correct myself. From 1995-96, as at 30 June 1996, to 30 June 2002 it moved from 126.5 to 85.2.

**Senator CONROY**—Could you just run those numbers past me again?

**Mr Ash**—If you refer to page 23 of the 30 June 2002 consolidated financial statements, there is a figure of \$126.5 billion as interest bearing liabilities as at 30 June 1996. As at 30 June 2002, interest bearing liabilities were \$85.2 billion; the difference being \$41.3 billion.

**Senator CONROY**—So that is a correct statement and it has enabled the repayment of some \$41.3 billion.

**Mr Ash**—That is based on the whole-of-government consolidated financial statements.

**Senator CONROY**—That are audited.

**Mr Ash**—That are audited. In other words, that is the general government sector, the public non-financial corporations sector and the public financial corporations sector in the Commonwealth sphere.

**Senator CONROY**—And that is audited by the Auditor-General; that is an important issue.

**Mr Ash**—Yes.

**Dr Watt**—This was in answer to your question F5, Senator, that we took on notice at the hearings on 11 February.

**Senator CONROY**—We were talking earlier about question F6—the reconciliation of aggregate cash flows. Should that be the same figure?

**Mr Ash**—No, Senator. In F6 we are now looking—

**Senator CONROY**—You say you have paid off \$47.7 billion as at June 2002.

**Mr Ash**—We are now looking at a cash flow figure, not a balance sheet. We are looking at the general government sector, not the whole of government.

**Senator CONROY**—Could you take me through the difference, firstly, in the sector. What are the definitional differences in the sector? Which one makes up which bit of what?

**Mr Ash**—The whole of government is the general government sector, public non-financial corporations and public financial corporations. So the PNFCs are the Telstras and Australia Posts. The financial corporations are things like the Reserve Bank. You add that to the general government sector and that gives you the consolidated financial statements. If you go back to question F5, we started off with that line comparing \$126.5 billion to \$85.2 billion.

**Senator CONROY**—And which one did that cover?

**Mr Ash**—That is the whole of government, which is all three sectors. If you take off public non-financial corporations and public financial corporations, you come to the total general government sector interest bearing liabilities' change in its balance sheet, and that moved from \$117.7 billion to \$73.7 billion, which I think, if my maths is right, is a movement of \$45 billion.

**Senator CONROY**—Intuitively, because one is a subset of the other, should the larger have the greater payoff? It could be that there are net issues.

**Mr Ash**—Most of the debt is held by the Commonwealth general government sector rather than the PNFCs and the PFCs.

**Senator CONROY**—That would imply that some of those PNFCs or PFCs have actually increased.

**Mr Ash**—Their debt has gone from \$8.8 billion to \$11.6 billion. Again, that is shown in answer F5.

**Senator CONROY**—I will come back to that. Can you provide a breakdown of the \$19.7 billion of investments that were purchased, according to F5? Does this include the \$10.4 billion on deposit with the Reserve Bank? It could be F6.

**Mr Ash**—This is the \$19.4 billion—

**Senator CONROY**—Yes.

**Mr Ash**—purchase of investments?

**Senator CONROY**—I have got \$19.7 billion, sorry.

**Dr Watt**—We have got \$19.4 billion.

**Mr Ash**—The major contributors to that are the AOFM. This is the term deposit you are referring to. That is an increase of \$10.4 billion.

**Senator CONROY**—So the RBA is the \$10.4 billion?

**Mr Ash**—No, it is the Commonwealth's deposit with the Reserve Bank.

**Senator CONROY**—Understood.

**Mr Ash**—The IMF quota Australia holds has moved by \$3.2 billion.

**Senator CONROY**—It has gone up!

**Mr Ash**—Yes.

**Senator CONROY**—We bought a bigger share in the IMF?

**Dr Watt**—I think the answer is probably the quota is denominated in—

**Mr Ash**—Our quota has increased.

**Dr Watt**—Our quota has increased, but it has increased in Australian dollar terms. That may simply be the reflection of movements of exchange rates.

**Senator CONROY**—So we are better off?

**Dr Watt**—No, we have an asset that is worth more. Whether we are better off depends on the payment stream to service it.

**Senator CONROY**—Okay. Please keep going.

**Mr Ash**—The Aboriginal and Torres Strait Islander Land Fund has also had an increase of about \$0.6 billion. And then there are lots of rats and mice. They are the three major contributors.

**Senator CONROY**—What was the figure for AOFM?

**Mr Ash**—\$10.4 billion. That is the term deposit.

**Senator CONROY**—Their \$10.4 billion is with the Reserve Bank.

**Mr Ash**—Yes.

**Senator CONROY**—IMF went up?

**Mr Ash**—\$3.2 billion.

**Senator CONROY**—The Aboriginal and Torres Strait Islander fund was \$0.6 billion and then there are lots of rats and mice.

**Mr Ash**—Yes.

**Senator CONROY**—I note that the answer to question F5 also notes that \$8.9 billion has been raised from the sale of property, plant and equipment. Could you give us a breakdown of that?

**Mr Ash**—Property sales is \$5.4 billion. The Aboriginal and Torres Strait Islander Land Fund is \$3.4 billion. We have then also got spectrum sales of \$1.7 billion and radio licence sales of \$1.7 billion. I think they are the major contributors to that number.

**Senator CONROY**—That seems to add up to more than the \$8.9 billion from the sale of property, plant and equipment.

**Mr Ash**—I may have actually given you one that has got the sale of investments inclusive in it as well, which may be some of the ATSIFL. I was looking at a break-up of the \$8.9 billion and the \$2.7 billion added together, which is \$11.6 billion.

**Senator CONROY**—What is the \$2.7 billion?

**Mr Ash**—The \$2.7 billion is the sale of investments.

**Senator CONROY**—Which investments did we sell?

**Mr Ash**—As I said, I have just got a break-up of those large four.

**Senator CONROY**—So the land fund, the spectrum, the radio—

**Mr Ash**—And property.

**Senator CONROY**—You said property is \$5.4 billion, the land fund is \$3.4 billion, spectrum is \$1.7 billion and radio is \$1.7 billion. Yes, that looks like it comes to about the same number.

**Mr Ash**—Yes.

**Senator CONROY**—I note the same answer shows that \$27.2 billion has been applied to the purchase of property, plant and equipment. Could you please provide a breakdown of what has been purchased?

**Mr Ash**—Defence is the major contributor to this. It purchased around \$20.1 billion over the period. That is going to be predominantly for military equipment. Defence Housing Authority was about \$1 billion. The Department of Finance and Administration was \$0.8 billion. The CSIRO was \$0.4 billion. The remainder is split across many other departments.

**Senator CONROY**—What did DOFA buy? What have you been up to?

**Mr Ash**—It relates back to the property portfolio, so it was purchasing property. The department not only sells property but also buys property because it manages a property portfolio.

**Senator CONROY**—On behalf of other people?

**Mr Ash**—On behalf of the Commonwealth.

**Senator CONROY**—So we flogged off a whole heap of property at questionable rates of return and then we bought some. Who did we buy it for? Can we get a breakdown of that?

**Dr Watt**—I think we made worthy disinvestments and worthy investments as well.

**Senator CONROY**—I am sure this is a worthy investment.

**Mr Ash**—Remember this is over a six-year period and it would include overseas property and domestic property.

**Dr Watt**—That is correct. That is an important point because at that stage we still had the overseas property portfolio, and that is much more significant than the domestic one.

**Senator CONROY**—Bearing in mind that you have included sale of investments in an earlier figure, the sale of property plant and equipment was \$8.9 billion when you subtract the \$2.7 billion for sale of investments—if I can just segregate that out. Can you confirm that property, plant and equipment purchase under this government have been more than three times as large as property, plant and equipment sales?

**Mr Ash**—Based on this data, yes.

**Senator CONROY**—It is \$27.2 billion as opposed to \$8.9 billion if you—I hesitate to say net out—subtract the sale.

**Mr Ash**—From memory it is property, plant and equipment.

**Senator CONROY**—Yes. Have these purchases been made subject to the 15 per cent and more recently 11 per cent hurdle rate that applied to the property sales. Do we know?

**Mr Ash**—I could not answer that.

**Dr Watt**—We would need someone from the property area to answer that, Senator.

**Senator CONROY**—I am happy to put that on notice.

**Dr Watt**—It might be an appropriate time to come back to the web site material. We may need to buy a new calculator, Senator.

**Senator CONROY**—I might need to buy one?

**Dr Watt**—One of us does. We get \$45.762 billion for the particular divestments that you highlighted. As I said, we may need a new calculator. That is very close to the \$46.5 billion in

the proceeds from assets sales program. We are looking at the reasons for the differences. As it is about \$800 million I will bet it is net and gross.

**Senator CONROY**—I will check my calculator in the next available break.

**Dr Watt**—If we are wrong we are happy to come back. We could have misadded, but that has been repeatedly checked.

**Senator CONROY**—Should government property purchases be expected to generate annual income of 15 per cent of value of the asset, given that was the benchmark that the government had? I am happy for you to take that on notice.

**Dr Watt**—We are happy to do that but remember, though, that in the Commonwealth property principles there are a number of individual circumstances that apply to the continued ownership of properties, not just the hurdle rate of return. For example, we have kept property in the parliamentary triangle we would not subject to a hurdle rate.

**Senator CONROY**—Are you trying to flog off Parliament House?

**Dr Watt**—No, Senator; unequivocally no.

**Senator CONROY**—I am pleased to hear it. You might need to take this one on notice. Can you tell which of these purchases of property, plant and equipment generates actual or imputed income, like rent, and which are depreciating assets that will eventually be written off. I am assuming defence will fall into the depreciation category pretty quickly, especially since there has been a war since we probably bought them.

**Dr Watt**—We will need to check the detail on that, but we can make a couple of broad comments. Simon, can you enunciate the general principle?

**Mr Ash**—If you look at the kinds of assets the Defence Force purchases, it is probably depreciation. For Defence Housing Authority it is going to be houses, so that will be depreciated. For Finance it is going to be property—I suspect predominantly overseas estate—and that will be depreciated. For the CSIRO it is going to be probably more equipment than buildings per se and again would therefore be depreciated. The vast bulk is depreciation.

**Dr Watt**—But we will take that on notice and give you an answer.

**Mr Kerwin**—The difference between the cash proceeds and the cash outgoings would lead you to that conclusion as well because the proceeds would be on depreciated assets.

**Senator CONROY**—I was going to ask whether you could tell us the amount of income earned in the six financial years to 30 June 2002 and where this income is reported in the budget papers. From the sound of it, there is not much income from them. There is unlikely to be any. Is that fair?

**Mr Ash**—No. On the face of it it would be very small.

**Senator CONROY**—I understand that answers to questions on notice also explained why the finance minister stated in the press release attached to the unaudited final budget outcome that \$61 billion of debt had been repaid when the audited consolidated financial statements showed that only \$41.3 billion of debt has been repaid. Can I confirm that, in gross terms, the government has paid down \$41.3 billion of debt by 30 June 1996?

**Mr Ash**—You can confirm that interest bearing liabilities at the whole-of-government level have fallen by \$41.3 billion.

**Senator CONROY**—Is that different from me saying that, in gross terms, the government has paid down \$41.3 billion of debt? Do you have a problem with that? You were very specific in the words you used.

**Mr Ash**—I am being specific because there may be a degree of confusion here. We are mixing different concepts, sectors and time frames in some of these statements.

**Senator CONROY**—So there are different concepts?

**Mr Ash**—Different concepts, time frames and sectors, which is what the reconciliation in F5 is trying to do.

**Senator CONROY**—I will assume that we broadly mean the same thing when we say that.

**Mr Ash**—Yes.

**Senator CONROY**—Can I confirm that asset sale proceeds of \$58.8 billion have exceeded debt repayments of \$41.3 billion by \$17.5 billion?

**Mr Ash**—The proceeds of asset sales from the general government sector have generated \$58.1 billion in cash; correct. There has been a fall in the whole-of-government interest bearing liabilities in the balance sheet of \$41.3 billion. I am trying to be careful with my words because we are looking at a balance sheet for the whole of government and movements in a particular thing vis-a-vis a cash flow of the general government sector. The two are different by their very nature—they are reporting on different sectors.

**Senator CONROY**—In other words \$17.5 billion of the money raised from selling assets has not been used to repay debt.

**Mr Ash**—If we go back to the table that is attached to the answer to question F6, the \$58.1 billion is most readily compared to the net repayments borrowings figure that is shown below \$47.7 billion. We are keeping it still within the cash flow statement and within the sector.

**Senator CONROY**—Could you repeat that?

**Mr Ash**—If you are trying to do a comparison, the best comparator to use against the \$58.1 billion in proceeds is the net repayments of borrowings figure, also from the same series of cash flow statements, which is the \$47.7 billion figure.

**Senator CONROY**—You think the \$47 billion figure is the better one to use rather than the \$41.3 billion. Is that what you are saying?

**Mr Ash**—It is not a better one; it is the more appropriate one to use when you are using your proceeds of \$58.1 billion. They are both cash figures; they are both for the general government sector; and they are both over the same period of time.

**Senator CONROY**—So that is \$58 billion, and were you saying \$46 billion or \$47 billion?

**Mr Ash**—The figure is \$47.7 billion. You are comparing like with like.



**Senator CONROY**—That still leaves us \$11 billion. To use your figures, there is therefore \$11 billion of money from selling assets that has not been used to pay down debt.

**Dr Watt**—I do not think that is quite what Mr Ash is saying. I think Mr Ash is saying the \$47.7 billion estimate is about the net repayment of borrowings.

**Senator CONROY**—No—

**Dr Watt**—Let me finish.

**Senator CONROY**—Cash is not net. Let us clear that up right now. These are cash figures that we are talking—money in and money out—not net.

**Dr Watt**—There is. It is described in the table—

**Senator CONROY**—You can describe it any way you like, but this is cash in the door and out the door.

**Dr Watt**—No, it is net repayment of borrowings because, at the same time, the government was actually raising money through borrowing, through issuing new securities. That is why it is a net figure—because the actual bonds repaid would have been more than \$47.7 billion, just as new bonds were issued. Is that correct, Mr Ash?

**Mr Ash**—That is correct.

**Dr Watt**—If you want to go on, you have to look at the purchase of investments line above.

**Senator CONROY**—Cash was shown in the investments, yes.

**Dr Watt**—If you want to ascribe, insofar as you can tag them, the sources of funds to uses of funds—because, remember, the total of the whole funds is much greater—then some of the purchase of investments was in lieu of repaying existing borrowing. So some of those proceeds from asset sales could also equally be ascribed to the build-up of investments by the AOFM. That is why the reduction in net debt is actually greater than the net repayment and borrowing line shows.

**Senator CONROY**—I accept that there is a build-up of investments that some of the money has gone to. That is what I am trying to establish. You actually just stated where I am trying eventually to get to.

**Dr Watt**—I am pleased I saved you some time.

**Senator CONROY**—So not all the money that has been raised has been used to retire debt; it has been used to accumulate other assets. It is not a state secret; that is what they have done.

**Senator Minchin**—I think table 1 that we are all looking at properly describes the situation. You have a variety of sources of funds that come in and a variety of ways in which they are applied.

**Senator CONROY**—I agree. This is about—

**Senator Minchin**—You cannot hypothecate one element out of the top pool and one element out of the bottom pool.

**Senator CONROY**—No, but you can look at it at the end of the day and make an assessment about whether the net debt figure that you keep quoting, Minister, actually includes a build-up of investments. But your net figure is actually an addition of some investments on top the debt you have retired. I do not think that is unfair; that is actually what you are doing.

**Dr Watt**—That is that point that I think we are all making in our different ways.

**Senator Minchin**—That has been our frustration with the argument that Kenneth Davidson and others have run about some missing sums of money, but the point is the government has purchased property, plant and equipment and it has purchased investments.

**Senator CONROY**—I think that to suggest you have retired \$60 billion of debt is frankly embarrassing when you actually have not. I am not alleging there is missing money. I am just trying to find out what you have constructed the net figure from so we can now put on the record that your net debt figure actually includes accumulated assets. That is what it is.

**Senator Minchin**—The government has, at the same time as it been selling assets and repaying debt—

**Senator CONROY**—You have been buying something. Woo-hoo! Eureka! We have got that. The fact that you want to lump it into a net debt figure would not pass the ANAO's test, and that is why this figure is not audited, because you will not let them audit it.

**Senator Minchin**—We stand by the table attached to F5, which shows the net debt on a GFS basis as having been reduced by \$60.7 billion.

**Senator CONROY**—It is just that no auditor is going to let you get away with it, which is why you will not have it audited—because it is a meaningless figure.

**Senator Minchin**—It is not meaningless at all.

**Senator CONROY**—It is. If you can just add any asset into net debt—

**Senator Minchin**—We can take you back through it, but we stand by that figure.

**Senator CONROY**—Maybe to advance this a little, could you please explain the table provided in the answer to F5? How do you get from \$41.3 billion in the audited—that is the key word—consolidated financial statements to the \$60.7 billion quoted in the unaudited final budget outcome? Just walk me through that.

**Mr Ash**—This is going from the \$41.3 billion to the \$60.7 billion?

**Senator CONROY**—Yes.

**Mr Ash**—If we start off with the \$41.3 billion, it is the movement between the \$126.5 billion and the \$85.2 billion, which is the change in the consolidated financial statements, whole of government interest-bearing liabilities. You take off public non-financial corporations and public financial corporation interest-bearing liabilities to get to the general government AAS—this is still audited numbers. Then you have to start making an adjustment. As we move from the Australian accounting standard approach of measurement into the ABS GFS standards, on the liabilities—

**Senator CONROY**—That is the unaudited bit now. We have moved out of audited into unaudited.

**Mr Ash**—It is the GFS adjustments. There are a series of adjustments made, the principal one being interest payable, which gives a measure of GFS liabilities, and that moved from \$115.4 billion to \$76.5 billion over that period. To get to the net debt under a GFS world you also have to add back on to it those assets—again, this is on the IMF ABS GFS approach. GFS assets have increased from \$19.5 billion to \$40.9 billion. But then when you get to the \$60.7 billion we are actually not comparing 1995-96 with 2001-02; it is comparing 1996-97 with 2001-02. So there is a timing difference. That is taking you through the logic of moving from a gross measurement of interest-bearing liabilities for the whole of government through to a GFS net debt concept.

**Senator MURRAY**—Which is interest-bearing.

**Mr Ash**—The make-up of the GFS measure on the assets side is cash and deposits, advances paid—which is on page 95 of the current budget papers—investment loans and placements. On the liabilities side it is deposits held, advances received, government securities, loans and other borrowing. So principally it is either cash or an interest-bearing asset or—

**Senator MURRAY**—And elsewhere in your books you have a gross figure for the interest paid on the interest-bearing debt.

**Mr Ash**—Yes.

**Senator MURRAY**—There is an interest paid figure.

**Mr Ash**—Yes.

**Senator MURRAY**—So if you took the interest paid figure and applied it as a percentage to the interest-bearing debt, you would get your average interest that you are paying?

**Mr Ash**—Yes.

**Senator CONROY**—So when the Treasurer or the minister say that the government has paid off \$61 billion of debt, what they should really be saying is that the government has paid off \$41 billion of what I have called gross debt—if you can just let me use that phrase for the purpose of this discussion. But if you subtract liabilities of public financial corporations, which have gone up, and adjust for advances and interest payable and add back in a selection of government assets, the government has paid off \$61 billion of debt in net terms. I can go through that again, if you like. That seems to me to be the same thing you have said but in slightly different language from mine, that's all.

**Dr Watt**—And for a different time period.

**Senator CONROY**—I accept that there is a timing issue which I have not probably calculated for. Does that seem a fair way to describe it? It is slightly different language from yours but I think they are the same thing.

**Mr Ash**—Yes.

**Dr Watt**—I want to come back to a couple of things I promised you answers to. You asked how much harder this year's budget was than last year's, and I said one index is the number of

measures in the budget documentation—rough and ready. In the 2002-03, there were 295 measures. In the 2003-04 budget, there were 393. So there was an increase of roughly a third. It was a bigger budget in terms of the spread of decision making. That does give some sense of the volume of documentation to manage and the number of things Finance has to prepare. With respect to that variance, most of those measures were expense or capital measures. I think these are just expense measures that the department of finance is responsible for on the expenses side. I think that is correct. While we confirm that, you asked Mr Prior when we started serious work on the budget framework and estimates review.

**Senator CONROY**—I think he has already answered that.

**Dr Watt**—I think we can give you a bit more information, which is slightly at variance to what Mr Prior gave you. Mr Prior actually started work on the budget framework and estimates review on 22 April after he returned from leave.

**Senator CONROY**—That sounds like what he said.

**Dr Watt**—He was, however, the only person for about a month.

**Senator CONROY**—But a very senior figure in your department.

**Dr Watt**—A very senior figure thinking. We really only started to put resources into it after the budget, so it was really from mid May on.

**Senator CONROY**—I appreciate that the budget would have had everything else on hold.

**Dr Watt**—Frankly, from my perspective, as important as this was—and as important as so many other things in the department are—I do not think I surfaced until after budget night. So I would say that the department was serious from mid May.

**Senator CONROY**—Thanks very much. I want to go back to our discussion a minute ago and put it another way. When the Treasurer and the minister state that the government has sold around \$60 billion of assets to repay \$60 billion of debt, what they should say is that it sold \$60 billion of assets to pay off about \$40 billion of debt and buy another \$20 billion of assets. In very simple layman's language that is essentially the transaction—subject to the timing issue.

**Mr Kerwin**—The only thing I would add to that, to qualify it, is that the other source of funds are the normal operations of government which also added cash. If you group them that way, you could draw that conclusion, but it has to have the proviso of the other sources of cash.

**Senator CONROY**—Is that a bit like selling your \$60,000 share portfolio to pay off your \$60,000 mortgage, but in fact paying off \$40,000 of your mortgage and using the \$20,000 for a new car, TV and video? They are depreciable assets just like what you have purchased.

**Dr Watt**—It might be a very good investment depending on your share portfolio.

**Senator Minchin**—I do not think it is appropriate for Finance officials to answer these sorts of analogies. I do not think it is their business. You can draw whatever conclusions you like about your personal financial affairs, Senator Conroy, but I do not think it is appropriate for these officials.

**Senator CONROY**—I would not let you loose with mine.

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**Proceedings suspended from 3.28 p.m. to 3.46 p.m.**

**CHAIR**—I call the committee to order. We are still on general questions.

**Senator MURRAY**—I will be brief because I may deal with these issues at greater length in outcome 1. In your statement of risks in the budget papers, are there any provisions made as a result of those statements of risks?

**Dr Watt**—Are you asking if we put any money aside to cover those risks or contingent liabilities?

**Senator MURRAY**—That is right.

**Dr Watt**—The answer is no. There is no statement of risks fund in that sense.

**Senator MURRAY**—I would assume that, if you have a range of risks, some would be of greater risk than others. When a risk becomes more likely, the accounting process is to put a provision in, and that does not happen here.

**Mr Flavell**—Sorry, I did not catch the questions, but I understand from Dr Watt that they were to do with whether we are making a provision for risks.

**Senator MURRAY**—I have had something to say on this topic before in other committees. There was a bit of a fun piece by Verona Burgess in the *Canberra Sunday Times* of 25 May that indicated the range of risks and the quantification of those risks, which are very substantial if you were one given to fearing asteroids and events that are unlikely to happen. Nevertheless, actuarially, within any range of risks there will be some that will emerge as real. My question is: are those risks graded in any sense? For those that might seem of greater risk than others, the prudent accounting mechanism is traditionally to put in a provision.

**Dr Watt**—Some of the answer to this does lie in the accounting issues. Mr McPhee might be able to help us here.

**Mr McPhee**—Where a call on the Commonwealth is more likely than less likely, a liability would be booked where it could be measured reliably. If it is less likely, it would become a contingent liability and appear in the notes to the accounts. From an accounting point of view, it depends on the probability that the Commonwealth will be called on to fund a liability. If that is likely, it should be booked, provided the liability can be reasonably measured.

**Senator MURRAY**—So in that quite significant number of risks identified in the statement of risks, none are considered more likely and therefore none have provisions made against them.

**Mr McPhee**—I think that is likely to be the general case, yes.

**Senator MURRAY**—Can you indicate with respect to litigation risk what happens there? I assume all that the Commonwealth is doing is putting aside a budget for costs of defending those risks as opposed to putting aside the liability for the case being realised.

**Dr Watt**—What the Commonwealth usually does is draw from its existing legal budget to defend against those costs, rather than put something aside.

**Mr Flavel**—That is correct. Going back a number of years, each agency had a compensation and legal item in the appropriation bills, which was rolled into departmental appropriations with the move to accruals. So notionally each agency in its base has some funding for those direct costs associated with litigation.

**Senator MURRAY**—Let me pick one item in Budget Paper No. 1, statement 11-9, the risk to the Department of Finance and Administration through litigation, with a counterclaim of damages of \$4.3 billion against the Commonwealth. That is defended out of the normal legal budget. If we were so unfortunate—and I use the word ‘we’ because it will be a taxpayer problem—as to lose such a case, all that would happen, I assume, is that it would result in a deficit hit on the budget and then it would be accommodated in subsequent budgets in some form.

**Mr Bowen**—It would have to be funded, Senator.

**Senator MURRAY**—But there is no provision?

**Mr Bowen**—There is no provision in the budget for that, no.

**Senator MURRAY**—Nor in the forward estimates, I might say.

**Mr Bowen**—When I say budget, I mean budget and forward estimates. No, there is not. Our test there is that, on the balance of probabilities, we don’t believe there is a likelihood of the Commonwealth being found liable for that claim.

**Senator MURRAY**—I assume that would be based on the legal advice given to you.

**Mr Bowen**—I think that is right but I will defer to my colleague.

**Mr Suur**—The counterclaim that you refer to relates to a fraud that was perpetrated against the Department of Finance and Administration in 1998. We have simply booked the counterclaim but there are a number of defendants to the case. Some of them have been imprisoned; others have been found guilty of criminal and civil charges. As a matter of due diligence we continued to book the full amount of the counterclaim in the statement of risks because the legal issues to do with the fraud have not been resolved.

**Senator MURRAY**—With other large items recorded as risks, such as, for instance, exposure through indemnities, guarantees and letters of comfort on such things as the sale of the Commonwealth Bank, I assume your evaluation that no provision would ever be necessary is because overall government policy is such as would make it very unlikely that a major bank like that would go under. It has happened in the world but I assume that is the basis on which you would not make a provision.

**Dr Watt**—I am not sure of the basis for that decision, Senator.

**Senator MURRAY**—It could not be a legal view; it would have to be a view taken on policy.

**Dr Watt**—I think it is also that the indemnities are only triggered under certain very select circumstances. So it would not just be a question of the future solvency or otherwise of the Commonwealth Bank; it would be a question of whether something like that triggered the guarantees. It is also not just a matter of the future solvency of the Commonwealth Bank but

of successive banks. At least in the past in Australia, banks have not failed; they have been bought out.

**Senator MURRAY**—I think most of us who read these documents take a sanguine view of the risks exposed. Nevertheless, the document is fairly bland and there is no evident comfort given in the wording that it was fairly unlikely and such things have never happened before et cetera. I know you cannot say that but I would think that, for the future presentation of material, the way in which it is phrased should indicate the reasons why there is no provision made. That is really the summary of my view.

**Dr Watt**—We can have a look at that. I take your point, Senator. In some cases, of course, the reasoning is perhaps less robust. I take the point about the space debris. It is just simply that the risk of a piece of space debris falling in the wrong spot is very low.

**Senator MURRAY**—Simply put, the view that you have that there is very little risk is shown because there is no provision. For the purposes of reading the budget papers and in view of the notionally very large sums of money involved, I think you need to indicate at least a brief sentence in each case why that provision has not been made.

**Dr Watt**—We are happy to look at that in future editions.

**Senator MURRAY**—That is all I have.

**Senator ROBERT RAY**—If I could return very briefly to the issue we raised this morning. Minister, you were not here, but we had a discussion about the role of your department in the construction of the detention centre on Christmas Island. I have subsequently explored some of those issues with DIMIA, and I found that interesting. Given that this project is almost being reinvented and on a much different timetable—that is, three years as opposed to 40 weeks—one of the questions that came up this morning was whether it would be appropriate now that at some stage it goes to the Public Works Committee. The answer essentially was—Dr Watt, correct me if I am wrong and if I am not properly summarising the answer—that the department has had legal advice and that legal advice indicates that they would have to resubmit it to the Public Works Committee. Is that a fair summary?

**Dr Watt**—The legal advice certainly does indicate that we do not have to. It does not have to be resubmitted or submitted in the first instance.

**Senator ROBERT RAY**—To which Senator Murray said, ‘What if the Senate refers it to the Public Works Committee?’ After a minute and a half’s huddle, you came back with an answer saying both houses of parliament have to refer it. I have actually gone back and had a look at the act, and I do not read it that way. Section 18 of the act says:

(1) A motion may be moved in either House of Parliament that a public work be referred to the Committee for consideration and report.

**Dr Watt**—You have an advantage over us, Senator; we have not checked the act but we are happy to do that.

**Senator ROBERT RAY**—Before you can see the ground too quickly, I have not read the whole act.

**Dr Watt**—I said we are happy to check the act. I do not think I conceded.

**Senator ROBERT RAY**—There may be some other hidden provision that I could not find in the act, but that infers that either chamber can do so. You can now assume pretty confidently that that is going to occur. You might put that into your thinking. Senator Murray, am I justified in part in that confidence? Senator Murray is nodding, so I am only three votes short—we are under way.

**Senator FAULKNER**—With Senator Murray's influence, we should be able to pick those up.

**Senator MURRAY**—As you know, I am a man of influence.

**Senator ROBERT RAY**—I am pretty certain, Minister, that that section will override section 8, which allows the House of Representatives to give an exemption. I am pretty certain that it does override it. Even if the House of Representatives renews its exemption or you rely on the existing exemption, the Senate would directly refer it. I think you would have to take it to the Public Works Committee and, for the record, Minister, I think this should now go to the Public Works Committee. I also agree that the 40-week proposal and the urgency involved then, for good reason, should not have gone to the Public Works Committee. I do not think the department should rely on a legal opinion that is based more on technicalities than moral suasion.

**Senator Minchin**—We note your forecast that the Senate may decide to refer—

**Senator ROBERT RAY**—Just encouraging you to pre-empt it and refer it.

**Senator Minchin**—There are a couple of subsidiary questions to that. Whether the committee is bound to accept such a reference from the Senate is another issue. It is also the case that the act refers to—

**Senator ROBERT RAY**—Can I stop you there? If it doesn't, you cannot commence work, according to the act. It would be a very foolish action to have the committee not accept the reference. Until it reports back to both chambers with a recommendation, you cannot commence work. None of us wants to get into that argy-bargy.

**Senator Minchin**—No. My second point is that I am advised that the act refers to proposed works. One of the difficulties here, which you might understand, is that as a result of the history of this we are now no longer talking about a proposed work because work has commenced. That does raise the question of whether this act applies or can be applied, or whether the committee has any relevance to it. We can drag this out if you like, but we certainly think that there is some real doubt now.

**Senator ROBERT RAY**—Have you read section 18(8)(d)? That section talks about repetitive work. It is not repetitive work. The act otherwise specifies where you do not have to go back. This is not repetitive work; this is preliminary work which will be of use for the next stage—I concede that.

**Senator FAULKNER**—Surely work has commenced on a different project, possibly with a different contractor—'possibly' because the tender process has not begun. We were told this morning that it is a smaller project. I got the impression—

**Dr Watt**—I think the work that has commenced is common to the project that was to be and the project that is currently to be.



**Senator ROBERT RAY**—I think we agree with that. But the further work is not repetitive work under the meaning of this act. Therefore you have to go back to the Public Works Committee and certainly you would not be able to rely on it if there was a Senate reference. You see, I am not so sure why you are being stubborn on this reference because, as I understand it, there have been only three exemptions in the last 20 years and all for good reason. Remember, Minister, that this was not your department's project.

**Senator Minchin**—Sure.

**Senator ROBERT RAY**—You are talking about a 40-week job, fast-tracking architecture, flying all the materials into Christmas Island as opposed to what is going to be possibly a 150-week job. It is an entirely different concept. Therefore, the reason for the exemption is far less compelling. You have not even gone to the tender stage yet.

**Senator Minchin**—We have spent \$60 million on the project already. We have a project manager in place and a new tender about to commence. But we hear what you say about the Public Works Committee. As you know, the government normally follows those procedures but there were reasons, as you have stated, why this one wasn't and we are just of the view that now that we have got this far down the track with this project, we should continue. While we have said that the overwhelming sense of urgency that applied before does not apply to quite the same degree, nevertheless it remains a project that we want to ensure is completed as soon as possible within reasonable value for money. We have already indicated to the committee that we want to work with it, consult with it and keep it fully informed of progress. But given that this work—which has started—has been exempted, we are not of a mind to go back over that.

**Senator ROBERT RAY**—In footy parlance, Minister, you have had a free kick, but you are not going to get a 50-metre penalty.

**Senator Minchin**—For the record, we would like to clarify the issue of costings. I was not here this morning but I gather that some figures are floating around. It would be useful for the record to clarify exactly what sums are being discussed.

**Senator ROBERT RAY**—That would be good.

**Mr Jackson**—We are going to provide three figures, one of which is in the 2002-03 budget papers, whereby there was a total cost of 245.5, which we indicated this morning. That is broken up into two numbers, being those for capital costs and recurrent costs, recurrent costs being the depreciation costs of running the project over a five-year budget process. Capital was 195 and recurrent was 50.5. In the current 2003-04 budget papers there are capital costs of 250.1 and recurrent of 72.3, giving a total figure of 322.4. I should point out that the capital and recurrent costs go across three agencies—DOTARS, DIMIA and Finance—in the current budget papers. The capital costs also include work that is associated with the delivery of the project, such as construction camp housing, infrastructure and the like. It is not purely the camp itself or the detention centre itself. You raised this morning the question as to whether I was aware of a figure of the order of \$492.5 million as an estimate. There were a number of iterations done for possible scenarios, and in fact I am aware of some 26 different cost plans that were prepared and identified primarily with a view to maximising value for money and

the various scenarios for it. There was a proposal that had a capital cost of \$418.5 million and a recurrent cost of \$74 million, giving the \$492.5 million.

**Senator ROBERT RAY**—I have never used the points, so I do not know where you got that from—the point five. I guessed it would be about 490.

**Mr Jackson**—My apologies.

**Senator ROBERT RAY**—It is just that you actually gave me a figure.

**Dr Watt**—We are happy to give you accurate figures, Senator.

**Senator ROBERT RAY**—That is good. I was \$2.5 million out. That is an acceptable margin of error, is it? So one of them was that high?

**Mr Jackson**—There was an option, which was obviously never taken up, that was going to cost that much money.

**Senator ROBERT RAY**—Where does the figure of \$159 million come from?

**Mr Jackson**—The \$159 million is a figure that is in the last previous 2002-03 budget papers and is included in the \$195 million.

**Senator ROBERT RAY**—That is in DIMIA's section, is it?

**Mr Jackson**—That was the IRPC component itself, not bringing water to the site and bringing power to the site and other such issues. It is a project within a project.

**Senator ROBERT RAY**—That figure of \$492.5 million was refused to me by DIMIA on the ground that it was commercial-in-confidence. I take it that is no longer extant.

**Dr Watt**—We discussed it with DIMIA. We feel that on balance the figure can be released, and we have released it.

**Senator ROBERT RAY**—It was not a very strong argument that they mounted. However, thank you for that.

**Senator FAULKNER**—Can you release that figure without getting the approval of the party with whom you have contracted in relation to the confidentiality clause? Or is the confidentiality clause not relevant to this?

**Dr Watt**—This was only one of 26 scenarios—that is why. If this had been the subject of serious negotiations with parties or in a contract, we would be looking at it in a different light, but this is one of 26 possible options.

**Senator FAULKNER**—So the other 25 could be made public too? Would you take that question on notice?

**Dr Watt**—We could have a look at that.

**Senator FAULKNER**—Thank you. I would appreciate it if you could provide the other 25.

**Senator ROBERT RAY**—In this Prague spring of transparency, you wouldn't want to give me the figure for how much you paid out Walters for the contract?

**Senator Minchin**—That probably is commercial-in-confidence. As I say, it is commercial-in-confidence but, if we reach a point where there is a new tenderer in place and a contract

signed and Walters have no objection to the release of that figure, then we would be happy to look at that.

**Senator ROBERT RAY**—We did establish this morning that the figure does not include a profit and loss type of payout, which is at least reassuring.

**Senator Minchin**—It is essentially for work done.

**Senator ROBERT RAY**—But I just want to know how much the work done cost, given that it is quite possible that we move from \$210 million or \$220 million to a possible \$490 million. I just want to make sure about that.

**Dr Watt**—I think the minister said that at the right point in time we will be happy to consider releasing that, but not now.

**Senator Minchin**—We have said that we have spent \$60 million I think so far. That is included in the total capital cost we have given you today for what will be the finished project—the 250 in capital cost. As to the agreement with Walters, if we are in a position to do so we will release it.

**Senator ROBERT RAY**—Thank you, Minister.

**Senator FAULKNER**—I want to ask the minister or Dr Watt about funding for the AEC. I am not sure, Minister, whether you received a letter that I think all members and senators would have received from the AEC outlining the fact that:

The Australian Electoral Commission has had to face a very tight budgetary situation in 2002-03.

This letter was forwarded to members and senators in September last year. You may or may not be aware of it, I am not sure. If you are not aware of the letter I am sure you are aware of the issue.

**Senator Minchin**—Yes, I am aware of the letter. As you know Senator Abetz, as my junior minister, has responsibility for the AEC, but I am happy to respond to any questions you raise with us.

**Senator ROBERT RAY**—Rest assured we will raise these issues with the AEC but it is to do also with their financing, which your section deals with.

**Senator Minchin**—Is there a question?

**Senator FAULKNER**—My first question went to awareness of the letter or awareness of the issue, and I think that you had indicated that you are aware of it. Given that Mr Becker, the Australian Electoral Commissioner, makes the point in this letter that the AEC's funding model has not been reviewed for many years, could you confirm whether that is the case?

**Senator Minchin**—I asked Dr Watt on behalf of the department to discuss this matter obviously in considerable detail with the Electoral Commission, and I think it is probably best if Dr Watt reports on where that is at.

**Dr Watt**—I think the point that the AEC's funding model has not been reviewed for a long period of time is correct. As a result of representations made by the AEC, and after discussions between Senator Abetz and Senator Minchin, we have commenced with the AEC a resourcing review to have a look at the adequacy of their resources.

**Senator FAULKNER**—A resourcing review?

**Dr Watt**—Yes. It is not just limited to their funding model; we are also having a look at their costs and the scope for making savings in those costs. That resourcing review is under way. We do anticipate that it will be finished later in this calendar year and that it will be considered along with other related issues in the 2004-05 budget. In the meantime it is our judgment that the AEC has sufficient cash reserves to meet its commitments pending the completion of the review.

**Senator FAULKNER**—Was that resourcing review an outcome of this year's budget process?

**Dr Watt**—No. The review got under way, I think from memory, late last year. I will just confirm that.

**Mr Bowen**—I think that is right.

**Dr Watt**—I am not being told it did not.

**Senator FAULKNER**—Mr Becker's letter talks in part about work commencing in early 2002 on an AEC pricing review. It is not clear to me whether that is the same review that we are speaking about.

**Dr Watt**—That may well be. Indeed I think the AEC started this work itself to have a look at the benchmarking of its own costs and operating expenditures. The first time this department became involved was later in the calendar year.

**Mr Butterworth**—The minister for finance wrote to the Prime Minister on 31 October 2002 advising that the AEC had commenced a resourcing review to be undertaken jointly with the Department of Finance and Administration.

**Senator FAULKNER**—Can you say to the committee what you are able to make public about the review process? I am interested in how it is working. I assume it is one of these normal things that occur in terms of a relationship between the department of finance and an agency, but are you able to give us any detail about the process around the review, the extent of its work, any terms of reference it might have and the like?

**Mr Butterworth**—In terms of broad objectives, it is essentially to determine the level of funding the AEC requires to meet its statutory obligations, and to suggest any measures that might enhance the financial management, corporate governance and accountability processes within the AEC. So it is dealing with both resources and governance arrangements.

**Dr Watt**—By resources, Senator, you should take that as funding applied and the costs of undertaking their activities as well.

**Senator FAULKNER**—And governance arrangements: what should I understand by that in the case of the AEC?

**Mr Butterworth**—What processes they have in place to manage their finances and whether they need to be enhanced in any way.

**Senator FAULKNER**—I am not clear on whether this goes to some of the sorts of issues that Mr Becker raised in his letter to parliamentarians. Let me quote him again:

The AEC has identified several strategies that may derive savings to underpin a sustainable basis of operation in the years ahead.

That is a direct quote. So is this:

The strategy identified as having the most potential for significant savings is the reduction of the number of office premises around Australia.

I am not quite sure if that fits into the terms of reference or objectives that you have outlined. I suppose it may well fit into the broad term of reference about the level of funding. Would that be the right?

**Mr Butterworth**—I think it does. The review will also examine the operating environment, workload pressures and opportunities the AEC has to achieve a more efficient delivery of outcomes. That would seem to encompass most of those issues you mentioned.

**Senator FAULKNER**—Does the Department of Finance and Administration accept that the funding model of the AEC is outmoded or inadequate?

**Dr Watt**—I do not want to prejudge the review, because it is not finished. But we do accept, based on a simple measure—for example, the fact that they expect to run a loss in the current year and I think in the out years as well—that we need to look at their financial health, we need to look at the resourcing that governments give them and we also need to look at the way in which that resourcing is spent with a view to looking at their costs. We do not bring to the table any predetermined views about how those costs should be reduced, but we will have a look at whatever the AEC suggests we look at and we also may have some suggestions of our own.

**Senator FAULKNER**—I ask about the process of the review here because, effectively, the Electoral Commissioner has written to members of parliament and requested views and input—I think that is fair to say. I do not know if you are aware of that or not, Dr Watt.

**Dr Watt**—I am aware the Electoral Commissioner has written. I am not in possession of the letter.

**Senator FAULKNER**—Let me just quote from it again, to perhaps give you the flavour of it:

The AEC is also keen to seek your—

that is MPs and senators—

views on the benefits and risks for your electorate associated with a restructured model based on the rationalisation of the number of AEC offices, recognising that a key feature would be the amalgamation of a number of divisional offices.

So this is an internal review. The review was established on 31 October 2002, I think you said. This letter went out on 17 September 2002. Is the review going to take account of views expressed by members and senators? Or is this something you would be expecting the AEC to report to the review, during the review process, as things develop? It seems to me a little unusual. In my experience—but your experience, of course, is much broader than mine—it is not often, that I can recall, that these sorts of reviews have been established and then we have had a situation where members and senators might have had an opportunity to express a view. Normally you do not really care very much what we think. I do not blame you.

**Dr Watt**—I do not believe that is necessarily the case, Senator. The review is probably best thought of as two separate things. One is what I call a more mechanical exercise to focus on what resourcing the AEC gets, what activities it undertakes and what it costs to undertake those activities and the scope for savings against those activities. That is a pretty mechanical process. It can be as little as—although it rarely is as simple as this—a giant activity based costing exercise.

The other part of the process would be looking at the pros and cons of different alternative funding models or different ways of getting the AEC's costs down. That is anything but a mechanical exercise. I imagine that the Electoral Commissioner has in mind that the input of members and senators would go into the latter part of that activity and that that input would be fed into that activity through the AEC. But I am imagining rather than being certain.

**Senator FAULKNER**—Any changes to the funding model may well affect these things that are close to the heart of a lot of parliamentarians; not so much on the Senate side but more on the side of our colleagues, both government and opposition, in the House of Representatives.

**Dr Watt**—I would assume, in my simple fashion, that that point would be made in the review process by the AEC based on the input it gets from, among other things, this sort of arrangement. I assume it is getting input from members and senators in ways other than just in response to this formal letter of the Electoral Commissioner. I assume that that would also be taken into account by the government when it considers the results of the review and what it should do with it.

**Senator ROBERT RAY**—There would be no pre-emptive action, Minister, on amalgamation of electoral officers until the august Joint Committee on Electoral Matters reports to you later this year with its views on this subject?

**Senator Minchin**—It is a fine committee.

**Senator ROBERT RAY**—Have you had a lot of representations on it?

**Senator Minchin**—They would go directly to Senator Abetz, of course. Certainly there is keen interest in the issue of divisional returning officers within our ranks, and no doubt within yours. That is the issue. The Electoral Commissioner is basically saying that with his current budget he does not think he can sustain the current network of individual DROs. In a sense this resourcing review will test that proposition to see whether it is valid or not. Subject to the results of that review, if that claim is substantiated, the government would have to decide—and it would be very interested in the views of the joint standing committee et cetera—on the question of whether or not additional resources should be provided to ensure it can sustain a DRO network of the kind that has been the tradition. That would be the crunch point, but I think we have to test the proposition first. That is what this resourcing review is about.

**Senator ROBERT RAY**—I think there is some contemplation—Senator Murray may know this as well—that the Joint Committee on Electoral Matters may also look at the resourcing and efficiency of operation. We would not want that to interfere with yours, but I am sure they can work hand in glove.

**Senator MURRAY**—There is already material in *Hansard* arising from an interchange between the committee and the commissioner on exactly this topic, which might be a useful additional reference point for the review committee.

**Senator Minchin**—I am advised that Senator Abetz has written to the Electoral Commissioner, consonant with the independence of the commission, indicating that he would prefer that there be no further decisions taken on rationalising the divisional structure until we have completed this review and the government has had an opportunity to consider it.

**Senator FAULKNER**—Are you satisfied that that does not leave the AEC in a bit of a funding hole in the interregnum?

**Dr Watt**—It is being closely monitored, but we believe they have the cash to carry them through until the consideration of next year's budget.

**Senator FAULKNER**—Whether they have the cash to cover that is certainly an issue.

**Dr Watt**—We believe they do, and I do not believe that is disputed by the AEC.

**Senator FAULKNER**—What makes you so confident that that is the case? I am not doubting it, but I am interested in your level of confidence, which seems strong.

**Dr Watt**—They have the ability to monitor their receipts of expenditure insofar as you can predict these things in advance—and we think we have a reasonably good level of prediction on both sides. They know their starting cash position, as do we. They know what their receipts and expenditures are. We believe that until consideration in next year's budget they actually have quite a large lump of cash which can be drawn on in the intervening period. They will run a loss. We expect that. They expect it. But the cash should be there—and we believe it is there—to carry that loss through until additional funding can be provided or the government decides that the necessary equalisation is going to be achieved through savings measures and until those savings measures kick in.

**Senator ROBERT RAY**—You mentioned that Minister Abetz had written to the Electoral Commission in terms of guidance and in the knowledge of their independence. Did they respond? That is the part I do not know.

**Senator Minchin**—No, apparently there was no response to that.

**Senator ROBERT RAY**—There is a document that I have seen that outlines the proposed amalgamations over the next three years. Have you seen the same document?

**Senator Minchin**—Yes.

**Senator ROBERT RAY**—So we have not had a response yet? We will be able to ask tomorrow.

**Senator Minchin**—I anticipate that the commissioner would be in a position to be able to agree to that—and I hope he is—based on what Finance understands to be the financial position. We are seriously looking at the issue. But you can ask the commissioner tomorrow.

**Senator ROBERT RAY**—Did you ever contemplate giving any drafting instructions to write legislation that ensured that the divisional offices would remain as they are for a while?

**Senator Minchin**—There has been discussion about the fact that the commission has this discretion. I am not aware of any formal move to seek to amend that. Again, I think that is premature. My sense is that the general view around parliament, on both sides, is that the DRO structure is, in principle, best kept on an electoral basis.

**Senator ROBERT RAY**—Is it?

**Senator Minchin**—That is the sense I get from my House of Representatives colleagues. The commissioner is aware of that. It was my view when I was the minister responsible—and I think it is still the case—that we should not eliminate the discretion entirely, or seek to do so. There are occasions on which it is appropriate that there be collocation in the interests of value for money for the taxpayer. I think it is premature to be discussing any question of any amendment to the act. We should go through this process. We are satisfied that the commission can operate for the next 12 months. We are having a serious look at the issue and we will decide on a course of action in the context of the next budget.

**Senator ROBERT RAY**—I do not want to pursue this too far, but are you aware of the countervailing argument that in New South Wales, for instance, having 50 DROs leaves a very flat staff structure and that it is very difficult for people to get promoted? Normally in a bureaucracy—and I do not use the term ‘bureaucracy’ in any insulting way; I think bureaucracy is a fine term—there is usually a little more hierarchy and opportunity for promotion et cetera. That is what is lacking at the moment.

**Senator Minchin**—I understand that argument, but we are not here to provide career paths for people who are going to work for the Electoral Commission; we are here to make sure that there is proper service at the electorate level. We have to have a structure that accords with those obligations. There is head office structure and all that sort of thing, both here and in the states. I appreciate that from a management point of view one of the alleged downsides of having 150 DROs around the country is a flat structure, but you could say the same thing about electorate staff who work for members and senators, and we are not proposing to amalgamate those just to provide career paths.

**Senator ROBERT RAY**—Or even give them a decent agreement; yes, I noticed.

**Senator Minchin**—I will not venture down that path either. But it is fair to say that certainly on our side and, I understand, on the Labor side there is a prima facie preference for keeping the DROs.

**Senator ROBERT RAY**—Sure; I concede that.

**Dr Watt**—If I can return to Senator Faulkner’s question about the AEC’s cash position, the portfolio budget statement says that at the end of this financial year—that is, 2002-03—they will have—

**Senator FAULKNER**—What page are you on?

**Dr Watt**—Page 115 of budget related paper 1.9. The AEC will have cash of \$26 million. They are projecting to run a loss. Their cash by the end of 2003-04 is projected to fall to \$18.4 million. Some of that cash is quarantined but, even after allowing for that quarantining, it still does leave them with a cash cushion. If that cash cushion were to run down faster than we currently project, there are ways of handling that.



**Senator MURRAY**—My interest in this is when the review is likely to be finished and when a reasonable time—I do not mean to hold you to it—by which the government could make a decision would happen. Plainly, election fever will start from late this year on and you will need things to be sorted out by then.

**Dr Watt**—I do not think the review is all that far off, Senator, but I will check.

**Mr Butterworth**—I think we can do it within a reasonable time frame.

**Senator MURRAY**—Meaning?

**Mr Butterworth**—Well ahead of the 2004-05 budget.

**Senator MURRAY**—That implies ministerial decisions by then.

**Dr Watt**—The way I would interpret Mr Butterworth's comments, Senator, is that we will have the review finished in time for it to be fed in at the start of the budget process, which of course means starting late this calendar year. We expect the review to be finished over the next four or five months.

**Senator MURRAY**—One of the prospects we might expect is, of course, a supplementary provision. Usually there are additional appropriations bills if the matter is quite evident on the face of it as to what has to happen. Let's face it, we are not dealing with large sums of money.

**Dr Watt**—Given the amount of cash the AEC has, it would not be necessary to deal with it at additional estimates. There would be more time than that; you could deal with it in the budget bills next year. Again, if the cash position changes, there are ways of dealing with it.

**Senator ROBERT RAY**—Just before we leave the AEC, a colleague of mine discovered that there seemed to be a rather large cut in the voter education area, but I think it later transpired that there had been no cut at all—about \$3.35 million had been attributed to the wrong program. I think it was put in program 1 instead of program 3 in the Electoral Commission, or something like that. If that did occur—you might confirm whether it occurred—how could it be allowed to occur?

**Dr Watt**—It did occur. There was an error in the functional split between outcomes for the AEC. It was an error. It was in the AEC's portfolio budget statements. As to exactly how it occurred, I think that is a question you would have to ask the AEC.

**Senator ROBERT RAY**—Now you have part answered it. In other words, you have indicated to me it was not your error but their error.

**Dr Watt**—That is correct.

**Senator ROBERT RAY**—That is correct, is it?

**Dr Watt**—Yes.

**Senator FAULKNER**—Who proofs the portfolio budget statements?

**Senator ROBERT RAY**—Who issues them?

**Senator FAULKNER**—We know who issues them. Anyway, who issues them? Let's start there.

**Dr Watt**—They are issued by the portfolio under the auspices of the minister. The minister certainly does not approve every addition.

**Senator FAULKNER**—I know.

**Senator ROBERT RAY**—Even we are not going to try that one on here today.

**Senator FAULKNER**—I go back to my first question: who proofs them?

**Dr Watt**—Sorry, I thought you said, ‘Who approves them?’

**Senator FAULKNER**—I would have thought Senator Minchin approves them—is that right?

**Dr Watt**—I misunderstood.

**Senator FAULKNER**—Let us deal with approval. I assume Senator Minchin approves them. I asked who proofs them.

**Dr Watt**—I appreciate that. I misheard. I will get you an answer, Senator.

**Senator ROBERT RAY**—Minister, why did you not pick up this mistake?

**Senator Minchin**—I read the blasted thing all night.

**Senator MURRAY**—Wasn’t it a deliberate error that you wanted us to pick up so that we would feel good?

**Dr Watt**—We are not that Machiavellian.

**Senator FAULKNER**—We just stitched up the AEC for it. I figure this proofing job is being passed down the line. It will be outsourced!

**Senator Minchin**—I presume we just accept what is given to us by the agency.

**Senator FAULKNER**—I would not make any assumptions, Minister; you know how risky that is.

**Dr Watt**—It is a very good assumption. We basically accept what is provided to us by the agency. They are a material agency; they are not a small agency. Under those circumstances we tend to take their material and include it in the portfolio budget statements.

**Senator FAULKNER**—Now my question is: who proofs the portfolio budget statement—the whole document?

**Dr Watt**—Who proofreads it?

**Senator FAULKNER**—Yes. It is done by the department, not by the AEC?

**Dr Watt**—Insofar as there is a proofreader, there is no centralised proofreading. We do not pore over any figures or numbers.

**Senator FAULKNER**—The buck stops with the secretary.

**Dr Watt**—Like everything else, always. I must admit that I did read the AEC’s portfolio budget statement but I did not pick up the error.

**Senator FAULKNER**—That is an admission you did not have to make, Dr Watt.

**Dr Watt**—It is true.

**Senator ROBERT RAY**—One of the reasons you would not have picked it up is that the bottom line was accurate—is that right?

**Dr Watt**—That is right. It is a split issue.

**Senator ROBERT RAY**—If they had slipped an extra \$3 million in you would have picked it up? It is a serious question.

**Mr Bowen**—The budget group does do a quality assurance check on agency PBSs for just that reason.

**Senator FAULKNER**—You do not trust them?

**Mr Bowen**—We check the figures in all agencies' PBSs against the appropriation bills and against the measures that have been agreed by the government. That would not necessarily pick up an error that is simply a misallocation within an appropriation.

**Senator Minchin**—But it would pick up an overallocation.

**Mr Bowen**—It would certainly pick up an overallocation.

**Senator ROBERT RAY**—You would not tell them about an underallocation, would you?

**Mr Bowen**—We would pick up any difference from the appropriation bills.

**Senator ROBERT RAY**—The serious part of this question—we had a bit of fun; they put it in the wrong column—is that they are writing to us saying that they are strapped for cash, and because of this I am worried about their financial management. If they cannot get this right maybe that is the cause of some of these other problems outlined by Mr Becker in his letter of the 17th.

**Senator Minchin**—I think it is a bit unfair to draw that conclusion from one figure in one column in a whole portfolio budget statement.

**Senator ROBERT RAY**—Is it common? Has it occurred anywhere else in this round of budget papers?

**Dr Watt**—I do not know whether it has been more prevalent this time than any other time.

**Senator ROBERT RAY**—That was not the question. Has it occurred in any other department or agency?

**Dr Watt**—There was a mistake in the Australian Taxation Office functional split. Again, it did not affect the bottom line.

**Senator ROBERT RAY**—Can you tell us about that? I did not know about that.

**Dr Watt**—They issued a statement about it this morning.

**Senator ROBERT RAY**—I was not here; I was busy.

**Dr Watt**—It was a misallocation of expenses between three or four different heads of revenue. There was no impact on the bottom line. It was significant amounts. We made the misallocation public. It was a case of the wrong data being put into the system.

**Senator ROBERT RAY**—You made the tax office one public to explain. When did you make the Australian Electoral Commission one public?

**Senator FAULKNER**—It is public.

**Dr Watt**—It certainly is public. I am not aware whether the Electoral Commissioner has done anything to make it public.

**Mr Butterworth**—Warren Snowdon brought it to the attention of the Electoral Commission on 15 May, and advice was sent to Warren Snowdon's office on 16 May advising that the error had been made.

**Senator FAULKNER**—So the opposition made it public.

**Senator ROBERT RAY**—And it is on his web site. I have to say that I am one of the few people that accessed his web site and found out this information. It is hardly publication. I am just wondering about the contrast regarding letting in this information by public statement this morning. Was it the tax office that did that this morning or the minister's office?

**Senator Minchin**—My attention was drawn to the fact that in documents issued under my name there had been a misallocation of information supplied by the tax office. I issued a statement to ensure that people understood.

**Senator ROBERT RAY**—I find that very commendable. I am wondering why it was not done with the Electoral Commission.

**Senator Minchin**—This is the first that I have personally learnt of this misallocation in relation to the Electoral Commission.

**Senator ROBERT RAY**—Do you want me to tell you anything else that is going on?

**Dr Watt**—There are two things, Senator. One is that the orders of magnitude are very different.

**Senator ROBERT RAY**—What were the orders of magnitude with the tax one?

**Dr Watt**—The tax one involved the following orders of magnitude: the subfunction of fuel and energy was underestimated in 2003-04 by \$888 million.

**Senator ROBERT RAY**—Gee, that would buy a lot of hotel rooms in Rome!

**Senator FAULKNER**—It depends which hotel room, of course.

**Dr Watt**—Sorry, overestimated by \$888 million. That actually rose, by 2006-07, to \$1.24 billion. There were underestimates in three other subfunctions: financial and fiscal affairs, \$125 million in 2003-04 and \$120 million in 2006-07; medical services and benefits, \$183 million in 2003-04, growing to \$222 million in 2006-07; and assistance to families and children, \$580 million in 2003-04, growing to \$900 million in 2006-07.

**Senator Minchin**—It did not change the bottom line but it was a material misallocation and I thought it warranted a correction. This one we are talking about is \$3 million.

**Senator ROBERT RAY**—Yes, I now understand there is quite a difference in quantum. Minister, if you want to know what is happening, the lesson you have learnt is to go to Warren Snowdon's web site and find out.

**Senator FAULKNER**—The issue about the AEC error, of course, is that it is actually in your portfolio. I think that is substantive, and you have told us you were not advised of it.

**Senator Minchin**—I do not recollect being advised of it. As I say, I have a junior minister who looks after the AEC. He was no doubt aware of it.

**Senator FAULKNER**—Oh, no doubt, yes. So he made it public, did he?

**Dr Watt**—Senator Abetz certainly was aware of it.

**Senator FAULKNER**—He made it public, did he?

**Senator Minchin**—I am not sure.

**Senator FAULKNER**—He covered it up, did he?

**Dr Watt**—I am not aware that he has made any public comment on it.

**Senator FAULKNER**—He either made it public or he covered it up. So he has covered it up.

**Senator Minchin**—No. You would have to ask him, but it could be that, it having been made public, he felt that anything he said beyond that was redundant.

**Senator FAULKNER**—All the problems always go back to Senator Abetz. I have noticed that. Very clever, Minister.

**Senator Minchin**—That is an unfair assumption to draw. But we appreciate Mr Snowden making it public.

**Senator FAULKNER**—We will pass that on.

**Senator ROBERT RAY**—He will be delighted.

**ACTING CHAIR**—He will now get double the hits on his web site.

**Senator ROBERT RAY**—I want to move on to another budget matter—A Safer Australia. I think that is in Budget Paper No. 2. The summary that I wanted to go to initially appears on pages 75, 76, 77 and 78. So that we can get the facts on the record, what in the total expenditure this year and in the three out years listed there is additional money to be spent on security across a range of agencies and departments? That is both capital and recurrent, I assume. The figure of \$374 million: is that the actual amount to be spent?

**Mr Bowen**—Yes, it is \$330 million in expenses and \$44 million in capital over the budget and forward estimates.

**Senator ROBERT RAY**—Is it only one revenue measure—to do with X-raying containers, et cetera? Is that right or is there another revenue measure to do with airports?

**Mr Butterworth**—Senator, the details are provided on the following page, page 78. There are two revenue measures there.

**Senator ROBERT RAY**—I see, aviation security is the second one, and that is on a user pays basis.

**Mr Butterworth**—That is right.

**Senator ROBERT RAY**—On page 75 there is mention of a one-off one-year savings measure as applied to the department of foreign affairs of \$0.5 million. What is that about?

**Dr Watt**—I would need to check this and that can be done fairly quickly, but I think this reflects a saving on depreciation they would otherwise have got. We will check and come back to you on that.

**Senator ROBERT RAY**—With the exception of the parliamentary departments, what are the savings measures that have been instituted to fund this \$321 million? I have taken out the \$52 million over the forward estimates for revenue. What savings measures, other than for the parliamentary departments, have been made to fund these?

**Dr Watt**—Again, we can try to come back to you fairly quickly on that. That is not transparent from this table. There is an issue about the extent to which departments may have absorbed or offset part of the cost of these measures.

**Senator ROBERT RAY**—But when I go through some of these other documents I can only find reference to saving measures to one set of departments—that is, the parliamentary departments.

**Senator Minchin**—But the savings measures do not necessarily reflect the full extent to which the government has paid for new measures not by revenue measures but by requiring departments to absorb or offset the cost of those new measures.

**Senator ROBERT RAY**—That is why I have asked the question. Nominate one other department that has been required to do that.

**Dr Watt**—We will have a look for you.

**Senator ROBERT RAY**—That is great, but I cannot follow on with my questioning. Do you want to adjourn? I have a line of questioning and, if you do not answer that question, I cannot go on to the others.

**Senator Minchin**—It is simply not possible to answer that question immediately.

**ACTING CHAIR (Senator Murray)**—Perhaps you could indicate how long you would take to come back on those questions.

**Dr Watt**—We will come back as quickly as we can. I do not think it is going to take too long by I cannot tell you whether it is half an hour or an hour—

**ACTING CHAIR**—Is it today? Is it before dinner or after dinner?

**Dr Watt**—We will try to come back before dinner.

**Senator ROBERT RAY**—As far as I can see—I am not asserting this as fact, Minister—it is the parliamentary departments that have been told that over the three out years, not the next financial year, to find savings to fund security measures and I cannot find that in any of the budget document as a requirement for a series of other departments including Attorney-General's, Foreign Affairs, Defence, Immigration, Prime Minister and Cabinet. They all get extra funds to pay for necessary—and I stress the word necessary—security announcements but for some reason the parliamentary departments have got to stomp up for their own security.

**Senator Minchin**—Subject to the information that we can provide as quickly as we can, it is the case that through the ERC process other departments involved in this matter had been required to absorb the some of the cost of additional security measures. We will get you that

information. In the case of the parliamentary departments, we have had a discussion but the government was mindful of the fact that savings can be made by the rationalisation of the parliamentary departments and, cognisant of those savings attainable by such rationalisation, the government considered it not unreasonable therefore that, in effect, savings from rationalisation be applied towards the cost of additional security. In another way, other departments have had to absorb, in the way we are really saying to the parliamentary departments, the cost of additional security.

**Senator ROBERT RAY**—On page 80, ‘A Safer Australia: enhanced parliamentary security’, it talks about an additional funding of \$25.5 million over four years being provided for the upgrade of physical security. It says, ‘See also related expense measures entitled “Parliamentary departments: efficiency measures”.’ In other words, it ties the two very much together. I cannot find a similar reference to any of the other agencies when I look through their details. I went through them; I cannot find it. I did find the revenue measures, of course, and it is associated with those on a user-pays basis. So the two things are very linked, aren’t they?

**Senator Minchin**—Yes, because they fit the description of specific budget measures, whereas, as you know, an absorption or off-set does not appear as a measure.

**Senator ROBERT RAY**—But what you have done, I assume—and we will come to this in a moment—is to say, ‘There is a requirement for increased expenditure for security, and you shall pay for it via savings.’ That is basically what you have said. I do not think that is an unfair way of putting it.

**ACTING CHAIR**—And the savings decision is not their decision; it is the parliament’s decision.

**Senator Minchin**—There is not much else I can say or add to what I have said. The government believes that additional security is required. That measure is there for security, but it does believe that the two departments of the House and Senate are able, particularly in the light of the report on amalgamation, to deliver savings that will enable the additional expense on security.

**Senator ROBERT RAY**—We will come to that report later, Minister, but I find it passing strange that probably the people who can least defend themselves at the Expenditure Review Committee and who have no leverage at all get slapped around and told they have to fund necessary security measures through savings, where I can find no evidence that the rest of these departments—all doing the right thing in terms of security; I concede that—have to actually make those sorts of savings, remembering that the parliamentary departments each year have to find a one per cent efficiency dividend and then have to fund any salary rises out of further efficiencies. That is true, isn’t it?

**Dr Watt**—They are no different from any other agency in that. We all have to live with the efficiency dividend.

**Senator ROBERT RAY**—But they are being treated differently, Dr Watt.

**Dr Watt**—We all have to meet the efficiency dividend and we all have to fund whatever wage cost rises we have out of whatever indexation arrangements we get. They are not treated differently there.

**Senator Minchin**—And, to the extent that security measures are required elsewhere, we have, in the course of ERC, required absorption and offsets.

**Senator ROBERT RAY**—But we are talking about additional measures, additional budget items, aren't we?

**Senator Minchin**—We have had to appropriate the money for their security. The absorption in this case is by way of this efficiency measure that is identified. It is incorrect to say that, through other mechanisms, other departments have not had to equally find savings to accommodate the additional expenditure on security.

**Senator ROBERT RAY**—Except that you cannot point one out to me at the moment. I thought you would at least be able to do one.

**Dr Watt**—We are having a look for you.

**Senator ROBERT RAY**—Yes, you are happy to look at it, but—

**ACTING CHAIR**—We will try the department of finance.

**Senator ROBERT RAY**—The department of finance has not had to find any savings for security because they have not had any funds allocated.

**Dr Watt**—I think that is incorrect.

**Senator ROBERT RAY**—Well, where is it here then?

**Dr Watt**—Let me finish, Senator.

**Senator ROBERT RAY**—I am talking about this document here. Be fair!

**Dr Watt**—Let me finish. This document is very much a document that deals with a part of the overall security response.

**Senator ROBERT RAY**—Correct.

**Dr Watt**—For example, our ongoing commitments to security have gone up as a result of the need to undertake increased physical security. This has been done over the last couple of years. We have not sought any additional funds for it. We have had to fund it by reallocating resources from elsewhere. That cost has been not insignificant. One of my colleagues can give you an estimate of the cost involved. Because we are a simple department, it is not as big as, say, what the Department of Defence might have had to do but, nevertheless, it is not insignificant for us.

**Senator ROBERT RAY**—Minister, do you think the Presiding Officers, when they appear at ERC, have the same sort of protection and leverage as other ministers?

**Senator Minchin**—I think they do, in fact. I think that the position of the Presiding Officers is at least the equal of ministers who appear before ERC. They are certainly treated with exactly the same respect and deference.

**Senator ROBERT RAY**—They do not feel that way, I do not think.



**Senator Minchin**—It is certainly my view that they are treated as at least the equals of ministers representing other departments.

**Senator ROBERT RAY**—I have a question for both Dr Watt and you, Minister. Are you aware of a continuing order of the Senate in regard to the amalgamation of the parliament that was carried on the votes of coalition members, the Democrats and Independents and was opposed by the Labor Party? It was carried some years ago, moved by Senator Georges, who was then an Independent. Are you aware of that?

**Senator Minchin**—About maintaining the five departments?

**Senator ROBERT RAY**—Yes.

**Senator Minchin**—Yes.

**Senator ROBERT RAY**—Do you understand what a continuing order of the Senate is? Would you like to explain to us what it is?

**Senator Minchin**—No. You can explain it, if you like.

**Senator ROBERT RAY**—It basically means that you cannot amalgamate the departments without a specific resolution coming out of the Staffing and Appropriations Committee that recommends it. If either house of parliament does not do it, where does that leave us? Let us presume the Senate did not do it. The departments would have to then find the savings elsewhere, would they?

**Senator Minchin**—As you know, the government's view is that it is utterly ludicrous to sustain five departments.

**Senator ROBERT RAY**—Gee, I wonder why you voted for this continuing order back in the 1980s. It has always been my view, not shared by your colleagues unfortunately.

**Senator Minchin**—I am not going to revisit that.

**Senator ROBERT RAY**—I just did.

**Senator Minchin**—That was 20 years ago, as you say. It would be interesting if that was put to a vote now.

**Senator ROBERT RAY**—It will be interesting.

**Senator Minchin**—Certainly I hope it will be and I hope that the parliament would resolve that. Having five departments is completely and utterly indefensible. We hope that the recommendations of the review of aspects of the administration of the parliament will be adopted and the savings will be forthcoming.

**Senator ROBERT RAY**—Dr Watt, it is true to say that long before you came to the Department of Finance and Administration, it had been an aspiration of the finance department to get an amalgamation of these departments, isn't it? That is not an unfair proposition.

**Dr Watt**—I am not able to answer that.

**Senator Minchin**—That is policy. It is their job to identify possible savings within government for government to consider. Over the years, they may well have been identifying this is an area where savings could be made that the government might like to consider.

**Senator ROBERT RAY**—That is more elegantly put.

**Senator Minchin**—It is certainly the government's view, as you are saying it was your view, that there are savings to be made by reducing the number of departments that service the parliament.

**Senator ROBERT RAY**—Other than in this round, when did the department last identify efficiencies to be gained here and put to government as possible savings?

**Dr Watt**—Not in my time. I am aware, however, that this has been an issue that the Expenditure Review Committee has looked at in the second half of the eighties on a number of occasions.

**Senator Minchin**—I do not think the department are at liberty to canvass publicly the areas within government where they have identified the possibility for efficiencies and savings. That is not normal, nor would you expect them to do it. All I said was that in the generality that is their job. Whether or not that was one of the efficiencies they identified, consistent with their charter, over the course of the years, it is certainly the view of the government—as indicated by page 209 under parliamentary departments—that there are efficiencies to be gained from implementing the report.

**Senator ROBERT RAY**—I will come to that. I have always been a supporter of amalgamation of the departments, other than the proposal under President Reid that would have saved less than \$1 million and turned the place into chaos—then it was not worth it. But it just seems to me the government—I will not say the department now; the government—have taken the opportunity of using an issue as sacrosanct as security, one that we all pay much more than lip-service to, and are using that to blackmail the parliament into changing its operation. I think that is loathsome. I really do.

**Senator Minchin**—We may well have to agree to disagree. Equally, I might say to you it is loathsome to expect the taxpayers to pay for enhanced security for this parliament while maintaining the grossly unjustifiable inefficiency and waste inherent in having five departments servicing this parliament. But we will have to agree to disagree if you want to talk about what is loathsome.

**Senator ROBERT RAY**—We are not at this stage having a dialogue or a disagreement on whether there should be five departments. This could have come as a savings measure at any time in the last few years, not be linked to security, and be debated in a far more rational and less emotional way. You are basically putting us in a position by saying, 'Look, you are not serious about the security of this building if you do not agree to amalgamation of the departments.' That puts a lot of us in an extremely unfair position. We have been serious about security. We have attended every meeting of the staffing and appropriations committee. We have put in an intense amount of work, in spite of some criticism in the fourth estate, to try to make this building safe, not just for us but for the staff here and the visitors, and we find a gun is put at our heads by saying, 'You can only do that if you meet the long-term aspirations of executive government and department bureaucrats to amalgamate the departments.' It is a very, very nasty choice.

**Senator Minchin**—On the other hand, I think it is fair to say that there has been a view that has certainly been held for the seven years we have been in government—and, I suspect,

when you were there—that it is intolerable to sustain the inefficiency associated with these five departments. Maybe the issue has not been forced before in the way it should have been. But now we are at a point where the parliament requires an additional \$25 million over four years—a not insignificant amount of money. To then say, ‘Okay, we’ve got to spend that money, but at the same time we are simply going to ignore or continue to put up with the inefficiency we have described in relation to the five departments,’ would be, I think, irresponsible in relation to the taxpayers.

**Senator ROBERT RAY**—It is the linkage I am objecting to—the linkage of the issues.

**Senator Minchin**—I see where you are coming from.

**Senator ROBERT RAY**—We feel we are placed in a position where we have to vote for amalgamation—something I have always supported, in spite of a bit of pressure around the place—and that if we do not we might not be able to have these security measures. There is the third alternative: we do not vote for amalgamation, we put in the security measures and then we have to look to other measures to find the savings. That is an option, isn’t it?

**Senator Minchin**—That is contemplated in these budget papers. It does refer to ‘or by alternative means’.

**Senator ROBERT RAY**—In other words you, your office, can start paying for your own phone calls as an executive government. How do you feel about that? You do not pay for them, your department does not pay for them, but it is nothing to do with the parliament, it is to do with the executive government. For your faxes?

**Senator CONROY**—Do we charge them rent?

**Senator ROBERT RAY**—I will come to that.

**Senator Minchin**—As I say, we believe that the expenditure on security is required and that the savings to pay for that can be achieved by implementing this review. If parliament decides it is not going to implement that review then we contemplate that it may have to look at alternative means.

**Senator ROBERT RAY**—We understand that. We have been past that, with due respect. We are saying you also allow for the fact that this may not occur and therefore savings have to be made elsewhere. Well, now I am trying to explore with you that, if savings and revenue have to make up the shortfall because the Senate or the House of Representatives does not pass the resolution, are you willing, as the executive, to pay your way in the building? To pay for your own security? To pay for your own telephone calls, which you do not do at the moment? To pay rent on the car park and everything else? Why wouldn’t you as an executive government, not directly part of the parliament? Why should you get a free lunch, a free ride?

**Senator Minchin**—I would be happy if the executive resided other than in the executive wing of this building, myself. I am not going to canvass with you here and now the hypotheticals of what the parliament might do if it chooses to ignore the very sensible recommendations of this review and the savings to be obtained from a reduction in the number of departments servicing this parliament. It is a thing that I think is intolerable to taxpayers, particularly in the light of the need to spend money on security for this building. It does require the parliament to face up to the fact that it cannot go on justifying having five

departments while, at the same time, there is this need to spend money on security. If we have to cross another bridge, well, we will come to that.

**Senator ROBERT RAY**—When was a copy of the Podger review made available to the department?

**Senator Minchin**—To our department?

**Senator ROBERT RAY**—Yes.

**Mr Bowen**—The report was tabled on 23 October and we received a copy of the report on 4 November.

**Senator ROBERT RAY**—You have analysed the review, have you? You have checked the review for competency and effectiveness?

**Mr Bowen**—It was an independent review by expert reviewers—

**Senator ROBERT RAY**—Do you mind telling us who did it?

**Mr Bowen**—The people who did it were Andrew Podger, in his capacity as Parliamentary Services Commissioner—

**Senator ROBERT RAY**—Yes, his name is on it. Who did he subcontract it to?

**Mr Bowen**—I do not know that he subcontracted it but I know that Len Early, the former finance deputy secretary, also worked on that review.

**Senator ROBERT RAY**—And who did he subcontract it to?

**Mr Bowen**—That is as much as I know.

**Senator ROBERT RAY**—Were you aware that the then President of the Senate, Senator Reid, explicitly gave an assurance to this estimates committee that parliamentary amalgamation would not be a part of that review? Are you aware of that, Minister?

**Senator Minchin**—I do not think I was aware of it, but I may have forgotten it.

**Senator CONROY**—That is probably why you stitched her up.

**Senator Minchin**—As I understand it, Senator Calvert and Speaker Andrew commissioned this review.

**Senator ROBERT RAY**—No, I do not think so; I think you will find—

**Senator CONROY**—Ferguson would never have given such a commitment.

**Dr Watt**—In terms of who did the work on the review, I do not know. The department of finance was not involved.

**Senator ROBERT RAY**—Have you got the PricewaterhouseCoopers consultancy on this that did all the figures? Have you looked at that?

**Mr Bowen**—No, I have not seen that. We have the published, tabled report but we do not have the consultancy, to my knowledge.

**Senator ROBERT RAY**—I cannot give it to you now but I am sure one of the parliamentary departments will make it available. This is all the figuring work. So you did not have the benefit of that? To come back to my question, how sure are you of the figures,

bearing in mind that the staffing and appropriations committee has had a full discussion with Mr Podger, and a lot of the figures went from being ‘reasonably certain’ to ‘estimates’? How certain are you that the savings are there?

**Dr Watt**—The point is that Mr Podger was reasonably confident that savings of the order of \$5 million to \$10 million a year were there and, given that it was an independent review, I think the department of finance and the Expenditure Review Committee were willing to take Mr Podger’s indication that savings were there.

**Senator ROBERT RAY**—Without examining it and checking the figures? You just took the bottom line?

**Dr Watt**—I do not think it is quite as simple as that. Again, the ERC thought that there were some savings there based on Mr Podger’s independent report, but also they had the opportunity, if the parliament did not feel they were there, to look at other ways.

**Senator MURRAY**—Dr Watt, throughout this estimates process you have indicated that the finance department always conducts quality assurance over the figures on which you may have to rely.

**Dr Watt**—I think there is quality assurance and quality assurance.

**Mr Bowen**—It is fairly normal in a QA process to rely on work that you could reasonably be expected to rely on, and I think you could be reasonably expected to rely on work that is undertaken by experts in the field. That is what we have done, recognising that the annual savings that are in the savings measure are towards the lower end of the range that was proposed by the Podger report—roughly \$6 million a year, from memory.

**Senator ROBERT RAY**—I thought it had at least been established that the best you can get out of the Podger report at the moment is 5.2. All the rest of the stuff is nebulous: it is assumed that it may occur or may not occur. But it is actually that 5.2 that is the right figure at the top end. Do you disagree with that?

**Mr Bowen**—I am relying on the Podger report, which gives a range of—

**Senator ROBERT RAY**—Yes, but you have not tested it; you have not put it under any analysis. At least we have gone and done that with him, in dialogue with him. Have you had a dialogue with Mr Podger about this? Have you tested it out? Where is the intellectual rigour here?

**Senator Minchin**—That was not the obligation on the—

**Senator ROBERT RAY**—That is right: just put the savings figure in and let other people suffer the pain and hurt.

**Senator Minchin**—The report was of a character and a quality that was acceptable to the ERC.

**Senator CONROY**—Can we quote that? That is not a high intellectual rigour test.

**Senator Minchin**—You yourself have just said, as the protagonist on this, that there is \$5.2 million in savings and what is required is \$6 million. So now you want to have an argument about \$800,000.

**Senator ROBERT RAY**—Minister, I did not say that at all. I said I think the top figure of savings is \$5.2 million.

**Senator Minchin**—You said there is \$5.2 million in savings. Podger says a minimum of \$5 million, up to \$10 million. We have sought \$6 million. On the basis of the report for the ERC, the cabinet was satisfied that those savings were achievable. I am pleased that you acknowledge 5.2 of that at least, so if you want to have an argument over \$800,000 we can argue about it.

**Senator ROBERT RAY**—You have just distorted what I said, because I said ‘up to 5.2’, so your whole point is useless, Minister. How many people have got to be sacked to implement this report? Do you know that? Do you want to give us that figure? You must have read the report. How many people have to actually lose their jobs to fund this? How many people are going to be made insecure to guarantee the security of the building in which you are sitting right now? Do you know?

**Senator Minchin**—What you are putting to us is that we should simply leave it and not put any pressure on the parliament whatsoever to do what you yourself agree should be done—that is, to rationalise these departments in order to ensure its safety.

**Senator ROBERT RAY**—I am asking you to take responsibility for your actions. I am asking you to take responsibility for your actions.

**ACTING CHAIR (Senator Murray)**—Order!

**Senator Minchin**—You are saying the taxpayer should just stump up the \$25 million and leave the parliament not to worry at all about the inefficiency over which it presides. That is what you are asking the government to do.

**Senator ROBERT RAY**—No, I am saying do not blackmail us, Minister, over this over security. This is a savings measure. You put it up honestly and directly. You do not link it to security. You do not put a gun at our head and say, ‘If you don’t pass the amalgamation you are not serious about security.’ I am asking for a bit of intellectual rigour for the Podger report because, when we start to examine it in more detail, disappointingly we cannot even find the \$5.2 million, but I acknowledge that is the top figure—not the actual figure but the top figure. Ten million is absolute garbage! It is absolute garbage! And all I want you to do is take responsibility, as a government, so that if you want to implement this report and you want to sack people around the building, take responsibility for it. I am willing to, but I do not think you are.

**Senator Minchin**—I do not know if this is just a rhetorical slash.

**Senator ROBERT RAY**—Look back at your rhetorical slash.

**Senator Minchin**—Governments and government departments—and ultimately the parliament—when faced with additional expenditures have got to make choices about resourcing and priorities.

**Senator ROBERT RAY**—Unless you are part of the nine departments.

**Senator Minchin**—The priority, we all agree, is enhanced security. That necessitates making decisions about resourcing and about priorities, which we are obliged to do in the

interests of efficiency and the taxpayers' money that we are spending. Yes, these two issues have come to a head together because the parliament for probably 20 years—you have probably been arguing the case for 20 years—has ignored the need to achieve some rationalisation of the servicing of this parliament and the farce of having five departments. Yes, it has come to a head as a result of the fact that we have got to find \$25 million over the next four years to enhance security. To choose to interpret that as blackmail is childish on your part. It is a necessary choice which this parliament is about to have to make.

**Senator ROBERT RAY**—What I am asking, Minister, is how much rigour the department of finance put into assessing the Podger report, and you said, 'We just accept the bottom line—it is an independent report,' as though I should bow down to Mecca and say, 'It's an independent report, therefore it is absolutely accurate.' I want to know what intellectual rigour went into examining whether the actual savings are there and what dialogue occurred and what assessment occurred, rather than you saying we want \$6.2 million worth of savings in each of the out years other than the last year, for which it is \$6.4 million.

I want to know whether in fact that is achievable through the parliamentary amalgamation. If it is not, has there been any discussion about where the other savings are going to come from? If it is \$5.2 million—the best figure that the Staffing and Appropriations Committee can agree on—where is the rest of the money coming from? Are we going to cut the library collection, are we? Small departments have difficulty generating the efficiency dividend and paying staff salary rises as it is—much more difficulty than big departments. You are adding this burden on top. Even if Podger comes in, they are probably going to be \$0.9 million short.

**Dr Watt**—I have to admit I do not think it is not just small departments that have difficulties. I think departments of all sizes suffer equal problems.

**Senator ROBERT RAY**—We have had PM&C before us and I could not discover any sacrifice that they have made for their enhanced funding. I dare say when I go to Foreign Affairs next week, or other departments, and ask them, 'Have you had to do any massive rationalisation to pay for security?' the answer probably will be no. I am wondering why the parliamentary departments—people who are politically weak in terms of the power structures around executive government, no matter who is in power—get slapped around.

**ACTING CHAIR**—Can we take this any further without the information you need?

**Senator Minchin**—We have undertaken to find out for you what other savings and absorptions can occur. All we can do is to find that out for you.

**Senator ROBERT RAY**—Let us make a couple of presumptions based on the department's presumptions. Let us assume the Senate when it resumes in the next two weeks passes a resolution allowing amalgamation—that is a presumption—and that the first year is covered. Are you convinced, by the way, that the start-up costs and the actual expenditure you will have to make of \$1.2 million are correct? There are up-front costs for redundancies and other things. Have you examined that figure to see whether it is accurate?

**Mr Bowen**—Which figure are you talking about?

**Senator Minchin**—The one that went to 2004-05.

**Mr Bowen**—The savings figure?

**Senator ROBERT RAY**—No, let me start again because I have confused everyone. The Podger report not only contemplates savings but also acknowledges that there will be up-front costs. The estimate of \$1.2 million is under a major challenge, I have to say, from the evidence the Senate Clerk gave on Monday morning.

**Mr Bowen**—I will answer your question, as I understand it. There is the recognition that there will be costs in 2003-04. On that basis, the savings are not assumed to apply until 2004-05. The security costs on the other hand are budgeted to start from 2003-04, but there is no offsetting saving for 2003-04. The offsetting savings commence in the following year 2004-05. So there is that recognition.

**Senator ROBERT RAY**—Only in part there is that recognition. Has there been any estimate whether there will be up-front costs in 2004-05, in implementing this, that would reduce the \$5.2 million savings? In other words, will we still be in the position then of paying redundancies and other costs to implement the amalgamation?

**Mr Bowen**—The recognition is that the costs will occur in 2003-04.

**Senator ROBERT RAY**—That is your assumption.

**Mr Bowen**—That is the assumption underlying the estimates in the budget.

**Dr Watt**—We are going to get you that additional information and we will come back to that. As for your comment about the \$1.2 million, that is simply a pro rata of the total cost across the five departments.

**Senator ROBERT RAY**—No, it is a different figure. The \$1.2 million is the Podger estimate of the implementation costs of amalgamation, which you have to stump up early. I do not know whether any of that—and I was wondering whether you do—went into the following financial year, which would reduce the amount of savings. We got diverted, Minister. You would be quite happy to see the executive wing pay for all its own phone calls and faxes in future?

**Senator Minchin**—I am not going to answer that on the run.

**Senator ROBERT RAY**—Oh, really.

**Senator Minchin**—No, I am not. If the parliament does not seek to achieve these savings through these measures, then we will cross that bridge when we come to it.

**Senator ROBERT RAY**—Yes, but you see we have a \$0.9 million shortfall even if it does. Let's say it is totally compliant, rolls over, wags its tail, amalgamates the departments, and we get the maximum of Mr Podger's established savings—not the guesswork, not the rubbish at the other end. But let's say we do that, we are still \$0.9 million down. We therefore have to generate revenue or find savings of \$0.9 million a year. I am just asking whether you are happy to stump up the \$400,000 you are spending on executive government and charging the parliament for. There are no free rides, Minister.

**Senator Minchin**—I suspect that it is possible to find savings of \$800,000 to \$900,000 in other parts of the operation of the parliament. As finance minister, I would prefer to find savings than generate additional expenditure.

**Senator ROBERT RAY**—Do you have any suggestions?



**Senator Minchin**—If the parliament wishes to have Finance look at their whole operation and indicate where we think the savings might be available, we are happy to do that.

**Senator ROBERT RAY**—A sort of reverse estimates—not a bad idea.

**Senator Minchin**—We are happy to do that.

**Senator ROBERT RAY**—Good luck.

**ACTING CHAIR**—A new twist on user pays, I must say. Do you wish to continue with general questions, Senator Conroy?

**Senator CONROY**—I do.

**Senator ROBERT RAY**—I thought we were in the budget area.

**ACTING CHAIR**—No, we have ranged far and wide on general questions. Senator Conroy, what areas are you interested in now just so that we can tell the departmental officers?

**Senator CONROY**—I have questions on net debt and net worth.

**ACTING CHAIR**—Dr Watt, Senator Conroy will return to general questions on net debt and net worth, so those are the officers you will need.

**Senator Minchin**—Senator Ray, for the record, I did not have, off the top of my head, the total budget for the parliament—I had an idea of it—but it is \$154 million. Again, I do not want to reopen the debate but what is contemplated is a saving of four per cent—about \$6 million out of \$154 million.

**Senator ROBERT RAY**—Plus one per cent, plus two per cent is seven per cent a year.

**Senator Minchin**—They are all the savings that we all have to make.

**Senator ROBERT RAY**—Minister, if you generate seven per cent a year, you disappear in the end.

**Dr Watt**—It is not seven per cent a year.

**Senator Minchin**—No, it is not.

**Dr Watt**—Remember you are being asked to save \$6 million a year, so you have to generate four per cent for the savings measures in the first year and then you generate that same amount each year in additional savings.

**Senator ROBERT RAY**—In the critical year, I have added in two per cent because that is what it averages out to with wage rises and the one per cent efficiency dividend. So in one year you have to get seven per cent.

**Dr Watt**—In one year, but not thereafter.

**Senator ROBERT RAY**—No. So you reckon you could cough up seven per cent in a year in your department, do you? We look forward to that.

**Senator Minchin**—By doing something about having five departments, absolutely. In terms of trying to sustain five departments in this place, yes.

**Senator ROBERT RAY**—I am just seeing whether you can generate seven per cent in a year.

**Senator Minchin**—I do not preside over five departments. If I had five departments, I think I could find it.

**Senator ROBERT RAY**—I still cannot understand why your mob voted against this in the late eighties.

**Senator Minchin**—I was not in parliament then.

**Senator ROBERT RAY**—You not only voted against it but you vilified the rest of us who supported it—just pathetic crusty old Tories! Now that you are in government you have turned 180 degrees. No doubt, if you go into opposition, you will be in favour of the five departments again. It is just a classic case of Toryism.

**Senator CONROY**—Senator Minchin's department is growing by at least 50 people in the next few months.

**Senator ROBERT RAY**—And so is PM&C. Look at their new division. Their new division goes up by 50 people. Fine—bang, give them the money.

**Senator CONROY**—It is time you disciplined the Prime Minister's department.

**Senator ROBERT RAY**—Exactly. Anyway, I do not know why you intervened, Minister—I was about to leave.

**ACTING CHAIR**—Senator Conroy, you have the call.

**Senator CONROY**—I would like to examine the difference between net debt and net worth. On Table B2 on page 2-15 of Budget Paper No. 1 2003-04, it states, 'Net worth is calculated as total assets minus total liabilities.' In other words, net worth includes all assets and all liabilities. Is that correct? The same table states, 'Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowings, minus the sum of cash and deposits, advances paid and investments, loans and placements.' In other words, net worth includes all liabilities but net debt only includes five of the eight types of liabilities of the government. Does that seem consistent?

**Mr Kerwin**—That is correct.

**Senator CONROY**—Can I confirm that total liabilities were \$177.6 billion in 2003-04, and that net debt does not include \$116 billion or 65 per cent of these liabilities in its calculations, so there is a huge exclusion?

**Mr Kerwin**—That is correct.

**Senator CONROY**—I would like to turn to page 8-5 of Budget Paper No. 1 2003-04, which states:

Net worth is an economic measure of wealth, reflecting the Commonwealth's contribution to the wealth of Australia.

The net worth measure is a more comprehensive indicator of a government's overall financial position than net debt as it incorporates a government's non-financial assets, such as land and other fixed assets, as well as certain financial assets ... not captured by the net debt measure, most notably accrued employee superannuation liabilities. For example, a limitation of the net debt measure is that the sale of

physical assets decreases net debt, with proceeds from sales increasing financial assets. Net worth recognises this increase in financial assets is funded by a decrease in physical assets.

Could you explain, Minister, why the government continues to emphasise net debt when it recognises that it is not as comprehensive a measure as net worth?

**Senator Minchin**—The government with very good reason believes that we inherited—if you want me to give the spiel, I can—

**Senator CONROY**—Please. We could use a laugh. It is a fairly serious conversation we have been having.

**Senator Minchin**—The Keating government did a lot of good things in fact in terms of economic reform, but the worst thing it did was substantially add to this nation's net debt. In just five years I think there was some \$70 billion additional net debt, which meant that the budget was liable for interest payments when we came into government of some \$8 billion a year. It was about as much as we were spending on education or defence or a range of other categories of legitimate expenditure. Therefore, we did set ourselves the task of focusing on that net debt problem with its consequent annual outlay on interest. Not only is this a real problem but it is an issue for the nation externally in terms of its international standing and regard, as it is very much influenced by international understanding of the nation's net debt. We have set ourselves the very serious task of reducing that to manageable levels.

**Senator CONROY**—Would you like me to repeat the question, because you seem to have not actually understood the question?

**Senator Minchin**—We have no embarrassment in focusing and concentrating upon, and talking about, the issue of net debt.

**Senator CONROY**—Even though your own budget papers clearly indicate that there is a more comprehensive measure? It states:

The net worth measure is a more comprehensive indicator of a government's overall financial position ...

**Senator Minchin**—If you want to play that game—

**Senator CONROY**—I am not playing one; I am agreeing with what is in your paper. I am just asking why it is—

**Senator MINCHIN**—I also agree with the statement on 8-4 in Budget Paper No. 1, which says:

Net debt is a common measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

**Senator CONROY**—I am glad you have been well trained—

**Senator Minchin**—Then it explains the concept related to net debt. We do think that focusing on the net debt issue is legitimate and sensible—

**Senator CONROY**—We had a bit of a laugh about your definition of net debt earlier, as you will remember, where you buy assets and then say, 'Hey, we have bought assets. That is net debt!'

**Senator Minchin**—We had a very legitimate explanation to you of the nation's substantial reduction in the net debt and, therefore, as that statement says, the call on future generations from the debt which your colleagues racked up so rapidly in just five years at the expense of—

**Senator CONROY**—What we were able to establish is that you have only repaid two-thirds of the amount of debt that you have been claiming because you have actually purchased assets.

**Senator Minchin**—We did not establish that at all, Senator Conroy.

**Senator CONROY**—You purchased assets with the other proceeds.

**Senator Minchin**—We established that we have repaid \$60 billion of the \$95 billion that you left us.

**Senator CONROY**—But we did not.

**Senator Minchin**—We did establish that.

**Senator CONROY**—You raised \$60 billion—

**Senator Minchin**—Of course you disagree because that suits you. You are simply not interested in debt you leave for future generations or the interest that we have to pay on it. Obviously, we are.

**Senator CONROY**—You have sold off all these things and raised \$60 billion but you only retired \$40 billion. That is the only point we came to. With the other \$20 billion you bought some assets.

**Senator Minchin**—We showed you how the budget establishes—

**Senator CONROY**—You bought some assets and then you said, 'Net debt, or we could put them back in.'

**Senator Minchin**—that the net debt has been reduced by \$60 billion.

**Senator CONROY**—That is why you have had to explain to the Treasurer the difference between debt and net debt. That is why he still stumbles between the two in parliament and outside parliament.

**Senator Minchin**—Let me take you back to that table which shows you that net debt has been reduced by \$60 billion or we can spend all night arguing about it.

**Senator CONROY**—The good news is that you have almost trained the Treasurer to put the word 'net' in front of it because he does embarrass himself when he does not put net in front of it. But you are pretty good on net. What we have managed to establish is that net debt includes assets you have purchased—they are lumped in. That we did establish. So I will move on. Can I confirm that net debt includes all financial assets except Telstra and ignores all non-financial assets such as land and buildings?

**Senator Minchin**—Did you mean net worth?

**Senator CONROY**—No, it is net debt which includes all financial assets except Telstra and ignores all non-financial assets such as land and buildings.

**Mr Kerwin**—That is correct.

**Senator CONROY**—Can I just confirm that when assets like Telstra and land and buildings like government offices are sold net debt is reduced?

**Mr Kerwin**—When those sales occur it goes into cash and it goes down, yes.

**Senator CONROY**—Can I confirm that when assets like Telstra are sold net worth is unchanged?

**Mr Kerwin**—That is correct.

**Senator CONROY**—I would like to refer to the IMF *Government finance statistics manual 2001*. It sets out the accounting framework under which the budget is prepared. In chapter 7, on page 129, it defines net worth. You may not have it handy. I appreciate that it would not be one that is at your fingertips. I have the relevant page here. Off the top of your head, Mr McPhee or Mr Kerwin, you may know this. Could you tell me where the 2001 GFS manual refers to net debt? I have the index here. I could not find net debt anywhere.

**Mr McPhee**—I looked in the index about three days ago and I did not see it either.

**Senator CONROY**—No. Net debt is not in it. So net debt does not rate a mention in the GFS manual from the IMF.

**Mr McPhee**—I did not read the whole book, but it certainly was not in the index.

**Senator CONROY**—Isn't it the case that the 2001 manual does not make any reference to net debt because the manual is based on accrual accounting that enables you to calculate the comprehensive measure of net worth, which includes all assets and liabilities, rather than the partial measure of net debt?

**Mr Kerwin**—I am not too sure of the answer to that. I can point out that net debt as a measure does show on offsetting of certain liabilities with certain financial assets. That is not an unusual thing to do in ordinary business. From what I understand, in the nature of pre-accruals there was also a net debt measure years ago.

**Senator CONROY**—But we are in accruals now, and they have pretty much dropped it since then. GFS is the one I keep getting lectures about. What you are talking about there includes only 35 per cent of liabilities. We have agreed that 65 per cent are outside the net debt calculation. We have moved on from the old days. I keep having discussions with you and Treasury where you try to convince me that GFS is the go, and GFS basically ignores net debt nowadays. But I will move on. I understand that the budget has shifted to market valuation of net debt as described in box 1 on page 2-16. That is the fiscal and economic outlook section. Can I confirm that as a result of this change all liabilities in table B2 on page 2-15 are now valued at market prices in compliance with GFS accounting standards?

**Mr Kerwin**—The answer is they are either at market value or a proxy of market value.

**Senator CONROY**—Or a proxy.

**Mr Kerwin**—For instance, other employee entitlements and provisions. They are valued at present value of expected future returns, so it is considered a proxy of market value.

**Senator CONROY**—So everything is either at or being attempted to be put at?

**Mr Kerwin**—Yes.

**Senator CONROY**—Right. Can I confirm that as a result of this change all the assets in table B2 on page 2-15 are now valued at market prices in compliance with GFS? Does it carry the same qualification?

**Mr Ash**—They are valued at deprival or fair value, which is a good proxy for market.

**Senator CONROY**—Market or fair.

**Mr Ash**—Deprival or fair.

**Senator CONROY**—Can I confirm that all flows and stocks in the GFS accounts in the budget papers are now valued at market prices or the best equivalent in compliance with GFS accounting. That is the outcome of the change?

**Mr Kerwin**—That is correct.

**Senator CONROY**—I would like to examine changes in net worth. I would like to return to page 2-15 of Budget Paper No. 1 2003-04. What is net worth projected to be at the end of 2003-04?

**Mr Kerwin**—Minus \$46.084 billion.

**Senator CONROY**—I want to turn now to page 8-18 of Budget Paper No. 1 2000-01, which you may not have handy. What was the net worth projected to be at the end of 2003-04? Almost zero, is that a fair interpretation of that table?

**Mr Kerwin**—I am sorry, Senator, we are still trying to juggle the different budget papers.

**Senator CONROY**—It is 0.4, which is almost zero. I would now like to return to page 2-15 of Budget Paper No. 1 2003-04. Do you have that? How is net worth projected to change between 2003-04 and 2006-07?

**Mr Kerwin**—It virtually remains the same.

**Senator CONROY**—How is net debt projected to change between 2003-04 and 2006-07?

**Mr Ash**—It is going to change by about \$30 billion.

**Senator CONROY**—Yes, that sounds right.

**Mr Kerwin**—It will change by about \$30 billion.

**Senator CONROY**—It improves by about \$30 billion. Is it not the case that over two-thirds of that improvement in net debt is due to the assumed sale of Telstra, which makes no impact on the government's overall financial position as measured by net worth? Net worth and net debt both include the sale of Telstra, but net debt improves and net worth stays exactly the same.

**Mr Kerwin**—The answer has to do with what happens to the cash from the sale. I suspect what is probably embedded in the figures is a retirement of debt with that cash.

**Senator CONROY**—They are your figures; I can only work off your figures.

**Mr Ash**—A large part of it is that there is a retirement of debt, as is shown in the government securities line, dropping from about \$61.2 billion to \$23 billion. The result of that is that the interest bill that goes against that debt is also reduced significantly. That interest bill

of the Commonwealth drops from currently sitting around \$3.5 billion down to about \$2 billion.

**Senator CONROY**—My point is that the sale of Telstra is not changing net worth, on the assumptions made in your own papers and figures.

**Mr Ash**—It is not changing net worth.

**Senator CONROY**—Thank you. Has net debt changed between 30 June 1996 and 30 June 2002? This is on page 2-9 of Budget Paper No. 1 2002-03.

**Mr Kerwin**—Was the question whether net debt had changed between 1996 and 2002?

**Senator CONROY**—Yes.

**Mr Kerwin**—Yes, it has. As at 30 June 1996 it was 95.831, and it is projected to move to 38.02.

**Senator CONROY**—Net debt has fallen by about \$61 billion.

**Mr Ash**—By \$60.7 billion. But it will not be that now because there is a market valuation in there.

**Senator CONROY**—I accept that.

**Dr Watt**—A number we have had in these hearings before, Senator.

**Senator CONROY**—How has net worth changed between 30 June 1996 and 30 June 2002?

**Mr Ash**—I am not sure there is a figure for net worth that far back.

**Senator CONROY**—Funnily enough, that is exactly what is written on my piece of paper.

**Mr Ash**—The net worth series starts from financial year 1996-97, whereas the net debt series goes back at least to 1974-75.

**Senator CONROY**—I know it is not directly comparable, but what does net worth show from 1997 to 2002?

**Mr Ash**—It was \$74.4 billion as at 30 June 1997. As at 30 June 2002 it was \$49.4 billion. That is from about 14 per cent of GDP down to 6.9 per cent.

**Dr Watt**—There has been an improvement but net worth is still negative.

**Mr Ash**—It was negative 74; it is now negative 49.

**Senator CONROY**—I would like to examine the net worth of the general government sector as reported in the consolidated financial statements.

**Dr Watt**—We will just get the statements.

**Senator CONROY**—I understand that the CFS for 1996 was unaudited since it was only a trial.

**Mr Ash**—Yes.

**Senator CONROY**—I understand from the answer to question on notice F8 that the value of investments was revised down in 1996. Was this downward revision reflected in the GFS balance sheet?

**Mr Ash**—Given that there was not a GFS balance sheet in 1995-96 I could not answer that.

**Senator CONROY**—There is no way to tell whether or not there was a downward revision?

**Mr Ash**—What we are trying to say is that a full GFS balance sheet on an accrual basis was not produced back then.

**Senator CONROY**—There was a GFS cash balance sheet.

**Mr Ash**—There was no balance sheet in 1995-96 on a GFS accrual basis.

**Senator CONROY**—No, I said cash balance sheet—cash.

**Mr Ash**—There were selected financial assets and liabilities.

**Senator CONROY**—So we are not able at this point to establish whether there was a downward revision. I understand net debt was calculated using GFS cash data.

**Mr Ash**—At that stage, net debt was calculated from cash information; it was not sourced from the consolidated financial statements. Since consolidated financial statements have been produced, the accrual ones, the ABS, in concert with the move of the IMF towards an accrual GFS framework, has moved to producing full accrual GFS statements. So the two of them have moved together.

**Senator CONROY**—I am a bit nonplussed that we are not able to actually find some way of working out whether or not there was a revision. Does the \$95 billion net debt in 1996 reflect a downward revision in investments? How about that—is that easier? There must be a way to tell.

**Mr Ash**—I could not tell from here. I would have to go and talk to the ABS because those numbers were constructed by the Australian Bureau of Statistics.

**Dr Watt**—Senator, it is a long while ago for any of us to want to test our memories.

**Senator CONROY**—I appreciate that.

**Mr Ash**—We can talk to the ABS.

**Senator CONROY**—There must be some way of telling whether there was a downward revision in investments. I appreciate you may not have it handy. Do you accept that it should be able to be calculated?

**Mr Ash**—Given that at that stage the ABS did not use the 95-96 trial CFS to calculate that figure, it then raises a question of whether there was a revision, because the ABS were basing their statistical sample on different information than was used to produce the first, in fact that was the second—

**Senator CONROY**—Let me read to you your answer to question F 8:

These initiatives included revised reporting requirements for departments and agencies such as the provision of balanced administered financial statements. This resulted in substantial downward revisions to the previously reported figures.

In the case of investments, these revisions resulted in the level of investments at 30 June 1996 being reduced from the unaudited figure of \$72.0 billion to \$37.9 billion, the constituents of which are shown in the table below: ...



Can we agree, then, that there has been a substantial revision or revaluation?

**Mr Ash**—In the consolidated financial statements. But those were not used as the source for the GFS series construct by the Australian Bureau of Statistics.

**Senator CONROY**—But does that mean this is an inaccurate figure, that it has been reduced from \$72 billion to \$37.9 billion?

**Mr Ash**—It means the \$72 billion was an inaccurate figure.

**Senator CONROY**—The \$72 billion was an inaccurate figure; you are not prepared to stand by it.

**Mr Ash**—No.

**Dr Watt**—The point I think we have made to you in some of our answers on notice is that the 1995-96 trial balance was a flawed—

**Senator CONROY**—It was a trial.

**Mr Ash**—The objectives of it were to identify what had to be done to produce the first set of audited statements the following year.

**Senator CONROY**—In what way was the \$72 billion figure flawed, in your view?

**Mr Ash**—We understand that it was because there was insufficient information in the material collected to do all the eliminations between agencies across the Commonwealth and between departmental administered funds. There was insufficient information.

**Senator CONROY**—They were not given enough, they did not have it or—

**Mr Ash**—They did not have sufficient information to deal with all the intracompany investments that have to be eliminated before you get to the consolidated position.

**Senator CONROY**—So the same assets are valued at different amounts in the two different measures under GFS.

**Mr Ash**—No.

**Senator CONROY**—I would like to come back to that after I have had a think about it. I understand from Budget Paper No. 1, page 1-6, that one of the government's fiscal objectives is:

- improving the Commonwealth's net worth position over the medium to longer term.

What does table B2 say net worth forecast is for 2003-04—we talked about it a little earlier—and for 2006-07? They are unchanged at minus \$46.1 billion. That was the discussion we had a little earlier.

**Mr Ash**—Yes.

**Senator CONROY**—Table 1 on page 1-2 shows cumulative cash surpluses of \$9.4 billion are forecast between 2003-04 and 2006-07. Similarly, there are fiscal surpluses of \$2.7 billion. Is that right? I just want you to explain why there seems to be a discrepancy between the cumulative cash surplus of \$9.4 billion and the fiscal surplus of \$2.7 billion—that is, a difference of \$6.7 billion. What are the issues that are going to drive them apart?

**Mr Kerwin**—Bear with us, Senator. And would you mind recasting your question for us? We were trying to find the table that you were referring to.

**Senator CONROY**—I was talking about the cash surplus of \$9.4 billion forecast over the out years and a cumulative fiscal surplus of \$2.7 billion. I think that is right. I was wondering if you could take me through why there is a substantial difference—\$6.7 billion. What are the factors that influence that?

**Mr Ash**—I think one of the biggest contributors to that difference is the movement in superannuation expenses, where they may not be matched by similar movements in the cash flows associated with them. For example, we had an earlier discussion about where there had been a revaluation in the order of \$5 billion to \$6 billion. That will flow through as an expense, but you will not see a cash flow consequence to that in the short term. There are other, smaller ones, but I think that is the major contributor to it.

**Senator CONROY**—Thanks.

**Proceedings suspended from 6.00 p.m. to 7.34 p.m.**

**CHAIR**—I call the committee to order. We are on outcome 1 still.

**Senator ROBERT RAY**—I just want to make a suggestion, Minister and Dr Watt. We would normally want to raise something that goes over I think 2.22 and MAPS, which was the IT issue at Treasury Place, because both sections dealt with it. Do you recall that?

**Dr Watt**—We have the people who deal with the IT issues here.

**Senator ROBERT RAY**—Yes, I understand that, but we do not have time tonight to deal with it. Rather than just raise it in MAPS and then be told that we do not have the IT people available then, why don't we get those people to attend MAPS tomorrow so we do not have to duplicate and double up?

**Dr Watt**—We are very happy to do that.

**CHAIR**—Thank you.

**Dr Watt**—Senator, while you are here, I promised you answers on two things. The first is in relation to areas where savings or major offsets were sought for the security package or where departments were funding security components in the run-up to consideration of that package and they have not been reimbursed for them. Do you remember the issue?

**Senator ROBERT RAY**—I remember the issue, but what I specifically asked for is where their funding was reduced.

**Dr Watt**—I do not have any examples for you where departments' funding was specifically reduced. I do have a number of examples where departments were funding, without supplementation, security costs.

**Senator ROBERT RAY**—That includes the five parliamentary departments, because they are already doing it.

**Dr Watt**—These are not ongoing security costs. They are, rather, areas where security costs were stepped up: additional security, which was not covered—

**Senator ROBERT RAY**—That is analogous to what has happened here.

**Dr Watt**—I do not think it is quite analogous—

**Senator ROBERT RAY**—Hold on. There has been a step-up of security here out of the existing budget. This new budget is not in yet. Just walk around the building and see. There certainly has been exactly the same thing—

**Dr Watt**—These are discrete programs where departments have absorbed part of the cost for which they have been funded in the security package. Let me give you some examples. In each case, they are two-year periods and they extend for two of the three years between 2002-03 and 2004-05. I have three examples for you. Defence absorbed \$18.7 million worth of Safe Base expenditure. Customs absorbed \$15.6 million worth of container X-ray expenditure, and that was at the rate of \$7.8 million a year. Attorney-General's have met \$21.5 million worth of diplomatic guarding over a three-year period.

**Senator ROBERT RAY**—Where will I find those in the budget papers?

**Dr Watt**—You will not. I am giving you some additional information.

**Senator Minchin**—It is because we are so generous.

**Senator ROBERT RAY**—I understand that.

**Dr Watt**—Because the agencies absorbed them, they are not new funding provided in the budget papers.

**Senator Minchin**—It does not appear as a measure, but you make a legitimate point. If it were the case that the parliament was the only single entity having to absorb the cost, you would have an argument.

**Senator ROBERT RAY**—No, I am saying they are the only set of departments that have had money deducted from their budget as a savings measure that is mentioned in the budget paper. We are not sure whether the half a million dollars in Foreign Affairs qualifies or not for that.

**Dr Watt**—I can also answer that question for you. I have to correct my previous evidence. The half a million dollars is a technical issue, I am told.

**Senator ROBERT RAY**—So it is not a savings measure?

**Dr Watt**—No. DFAT revised the accounting treatment of SATIN installation expenses. This requires the capitalisation and therefore depreciation of expenses critical to the replacement of assets that resulted in a transfer of \$3.3 million from DFAT's operating budget to their capital budget. The net effect of this transfer is \$473,000—that is, half a million dollars—in their operational expenditure in 2003-04. That is what you see.

**Senator ROBERT RAY**—I would like to round out these figures. You said a two- to three-year period. By how much did the Defence budget, Customs budget and Attorney-General's budget go up or down in that time?

**Dr Watt**—I do not have those numbers. I agree that the Defence budget is a very substantial budget, but it is stretched in a large number of different ways at the moment.

**Senator ROBERT RAY**—Of course. I think I still have a grasp of the Defence global budget. I understand that. But the actual parliamentary departments budget is going to go

down. In absorbing this and with all the other funds they are getting in, I am wondering if any of these three are going down or whether they are going up in real terms. I strongly suspect they are all going up in real terms.

**Dr Watt**—You may or may not be right about that; I do not have an answer for you. But the point is that, nevertheless, just as the parliament is asked to effectively produce more outputs per unit of input, so are these agencies.

**Senator ROBERT RAY**—So you could have asked the parliamentary departments just to absorb their costs. You could have expressed it that way. But you do not in the budget papers, because you point to a savings measure in the second paragraph right under where you list it. You link the two, which you do not do in any other part of the budget papers.

**Senator Minchin**—Sure, it is true that we could have just asked them to absorb it without giving them money. Instead of giving them \$25 million, we could have said, no, you just find the money.

**Senator ROBERT RAY**—And they could have said, ‘Well, we are not putting any extra security around the building.’ The first people to be affected by that would be in the executive wing, I would suggest, because that is where the highest threat is to the building.

**Senator Minchin**—I think a lot of backbenchers on both sides were keen on additional security. We have given them the additional funds and we have indicated we expect savings to meet that. In other cases we have said, ‘You’ve got to meet these expenditure requirements but you’re going to have to absorb them.’

**Senator ROBERT RAY**—You have prompted another question: in the out years—

**Senator Minchin**—They bid for the money, of course, for the security measures.

**Senator ROBERT RAY**—So what we can say for a start is six departments were not asked to absorb, that we know of. There are nine mentioned in that list.

**Dr Watt**—We can keep seeing if there are further ones, Senator. This is just a quick look.

**Senator ROBERT RAY**—I see.

**Senator Minchin**—We are not saying this is an exhaustive search.

**Dr Watt**—It may not be an exhaustive search.

**Senator Minchin**—You asked: are there any other departments? We have given you three.

**Dr Watt**—There may be others. This is what we have been able to turn up.

**Senator ROBERT RAY**—In terms of the out years—2004-05, 2005-06 and 2006-07—how many of those departments have to totally absorb their increased security costs?

**Dr Watt**—Again, in terms of that particular package itself, the answer is none. There is a question whether departments have been absorbing other security related costs.

**Senator ROBERT RAY**—As I have pointed out, the parliamentary departments are already absorbing expenditure on enhanced security here. They have been spending this year. Anyway, that is the answer: no other department in those out years has to absorb or find savings for the totality. That is my point. The parliamentary departments are being treated

differently because it meets the long-term aim of members of the executive and the department to have a forced amalgamation of the departments.

**Senator CONROY**—If only they had voted for it.

**Senator ROBERT RAY**—Yes.

**Senator CONROY**—I would like to discuss table B4 on page 2-17. Can you explain where this table sits in relation to the fiscal balance and net worth?

**Mr Kerwin**—If we go to the top, there is an opening balance. Sitting underneath there there is ‘Change in net worth from operating transactions’ and then there are a series of numbers going across the years. Those series of numbers are explained by table B1. If you have a look at B1 there is a net operating balance in the midst of table B1 which basically reflects revenues and expenses, giving you a balance. Underneath the ‘Change in net worth from operating transactions’ there are a range of other transactions that are not part, in the GFS framework, of the operating position and so they are disclosed here. You then end up with a change or the overall change in net worth.

**Senator CONROY**—This table seeks to reconcile changes between the reported budget balance and the change in net worth. Is that a fair assessment?

**Mr Kerwin**—Yes.

**Senator CONROY**—On page 43 of the IMF GFS manual 2001 it states that the statement of economic flows presents influences on government net worth that are not the net result of transactions. That is correct?

**Mr Kerwin**—That is correct.

**Senator CONROY**—Could you explain what is meant by ‘influences on net worth that are not the result of transactions’? If, for example, net worth is influenced by a payment to a third party would this be considered a transaction?

**Mr Kerwin**—It probably would. Can I just explain it as I understand it?

**Senator CONROY**—Yes, please.

**Mr Kerwin**—What GFS takes some effort to do is to distinguish between things that it describes as transactions or the things that government does as its normal day-to-day work. The operating statement reflects that. But, unlike accounting, when there are revaluations and those sorts of things, instead of them forming part of the operating position, they form part of the statement of other economic flows. So there is a distinction in the GFS world which endeavours to deliver a net position which reflects government undertaking its normal programs et cetera, and the effects of government undertaking its normal programs using assets, for instance, and the revaluations et cetera that happen on those assets.

**Senator CONROY**—Could you please explain the entry ‘total revaluation and profit on asset sales which has the impact of raising net worth by \$5.3 billion in 2002-03’?

**Mr Ash**—The \$5.319 billion is largely the change in the Telstra price, so it is a market valuation adjustment between where we were at MYEFO and now—sorry, FBO.

**Senator CONROY**—It is the sale of Telstra?

**Mr Ash**—No, the revaluation of the asset that we hold.

**Senator CONROY**—So you're booking a profit on the change in market value over historic cost of commercial entities like Telstra?

**Mr Kerwin**—It's not a profit, Senator, it's just recognising that that's—

**Senator CONROY**—Booking an increase?

**Mr Kerwin**—Booking an increase, yes.

**Dr Watt**—Just as we would have booked a decrease when the share price fell, Senator.

**Senator CONROY**—Is it just Telstra?

**Mr Ash**—It is mainly Telstra. There's a couple of hundred million for others.

**Senator CONROY**—They had been revalued basically because you haven't—

**Mr Ash**—It's just a normal valuation.

**Senator CONROY**—It's just a normal movement. And it's been positive—the Telstra share price has been positive. Is that T1? I'm just trying to work out which movement in Telstra's share plunge you have included as a positive. Telstra's share price has gone down, not up, over the last 12 months.

**Dr Watt**—Yes, but I think it is a point about the exact time at which this statement is prepared, Senator. At the moment it is higher than it was.

**Mr Ash**—The explanation for that is that at the FBO the Telstra share price was valued at \$4.75. For the purposes of estimation into the future, there is an assumption used for the share price of Telstra, which is \$5.25.

**Senator CONROY**—So it is at \$4.75 and you have assumed a 50c increase in the share to get that. Is that right?

**Mr Ash**—That's how we do it.

**Senator CONROY**—You are assuming that the share price is going up? That is the assumption you made for the purposes of a revaluation that adds—how much is it?—\$5 billion.

**Mr Ash**—Yes.

**Senator CONROY**—And it is almost all Telstra, we've said, basically. That is priceless! Five billion off a 50c increase in Telstra. I will digest that for a while. Why would you make an assumption like that? Was it simply like a good idea at the time?

**Dr Watt**—We just need—

**Senator CONROY**—Please take your time. What do you think? We are being webcast as we speak.

**Dr Watt**—Senator, can you ask us your question again?

**Senator CONROY**—We sat here and had a lengthy discussion earlier before the dinner break about how you value your assets and I was assured that you valued them at market. I asked about this one and you valued it—I think I worked it out—at 20 per cent above its

market value and I was asking why you did that. You have broken the accounting rules for a start and you have contradicted your earlier evidence and I was just wondering if there was a reason.

**Dr Watt**—I think the convention that has been adopted for this valuation is, as I understand it, to return it to something like the likely sale price that the government—that might be considered and that is apparently the valuation process that has been used in previous years.

**Senator CONROY**—But we had a discussion earlier when you assured me that you were complying with GFS and you had moved to this new market. Frankly, to find that you are fiddling with the prices of Telstra in your book to a 20 per cent premium when for most other things you go into forward years on existing—for example, for the dollar you go, ‘Right; the dollar is at this rate and we forecast it forward for the purposes of these accounts and things at a constant price’—I find extraordinary. Would you like to correct the record?

**Dr Watt**—Senator, as I say, it has been the convention to do the estimates this way. I think we need to look at the convention, and we will.

**Senator CONROY**—No, you see you have assured me that you have adopted GFS at market value. It doesn’t matter what the previous convention was, you have actually assured me here today, you have made public pronouncements in your FMO, and we get to this one and we find that you have added \$5 billion to the national net worth.

**Dr Watt**—This may well be an exception to where we have adopted GFS at market value and we will certainly look into it.

**Senator CONROY**—Would it be true to say that without this valuation net worth would have fallen \$5 billion?

**Dr Watt**—No, Senator, I do not think that is correct.

**Senator CONROY**—Well, this is an increase in \$5 billion caused by your valuation above the market price.

**Dr Watt**—This has added \$5 billion to net worth but what I don’t know is where net worth was in 2001-02 from this statement. Is it correct to say that without this valuation effect net worth would be something of the order of—broad order of—\$5 billion lower? I think—

**Senator CONROY**—What else would have offset it? I don’t want to sound silly.

**Dr Watt**—It is a matter of which comparison you are making, Senator. You have asked me a question which leads me to believe that you are comparing 2001-02 to 2002-03. That is what I don’t have an answer for. If you are saying would the 2002-03 figure be substantially less than negative \$47 billion, the answer is yes.

**Senator CONROY**—It would be?

**Dr Watt**—Yes.

**Senator CONROY**—So are you assuming the same price that you have assumed here when you calculated the proceeds from asset sales and hence net debt?

**Mr Kerwin**—Sorry, Senator, on the proceeds of sale from?

**Senator CONROY**—Asset sales. When you calculate net debt, have you made this assumption assuming the same price that you have just assumed for Telstra when you put forth the figure for net debt? Because if this figure is impacting like this in the net worth column, frankly it should also have some impact on the net debt figure.

**Mr Kerwin**—Because of the proceeds of sale in 2005-06 and 2006-07, we have used the same—or the same number has been used—

**Dr Watt**—Perhaps if I can answer it differently: the net debt is only affected when sale occurs. So the number in 2002-03 does not have an impact until—there is no impact from this particular number in 2002-03 on net debt. You start to have an impact on net debt from the time the asset begins to be sold and that is in 2005-06.

**Senator CONROY**—But this transaction has artificially boosted net worth by \$5 billion more than it would otherwise have been.

**Dr Watt**—Net worth has grown—I wouldn't say that we used the word 'artificially'—by \$5 billion.

**Senator CONROY**—There is no other word to describe valuing it at 20 per cent above market; it is just an artificial assumption because it is not the real position. But, whichever way you look at it, net worth has been boosted by \$5 billion more than it otherwise would have been.

**Dr Watt**—That's right—of the order of that, Senator.

**Senator CONROY**—I'm probably going to come back to a few other questions on this. But, even on the way you have described it, you are artificially inflating the reduction in net debt when you do sell it, if this assumption—

**Dr Watt**—No, Senator, we are not artificially inflating anything. The government's made a decision that Telstra would only be sold under certain conditions. The government has clearly stated those conditions. There is no artificial inflation. For the purposes—

**Senator CONROY**—You have breached your own accounting rule—you have breached every accounting rule I know of.

**Dr Watt**—I don't think that is correct, Senator.

**Senator CONROY**—I don't know any accounting rule that says you are allowed to value something above its market price. You can value it at historic, you can value it at fair, you can value deprival, but I have never met an accounting standard that says you can value it 20 per cent above its market worth.

**Dr Watt**—For the purposes of the sale estimates for Telstra the government has made clear that it will only sell Telstra if there is a satisfactory return to the Australian taxpayers. The government has therefore included an estimate for allowance for some improvement in the price.

**Senator CONROY**—Are you suggesting that the government has made you do this?

**Dr Watt**—No, I'm just saying the government has got a clear statement.

**Senator CONROY**—That is not inconsistent—



**Dr Watt**—Would you let me finish my comment, please?

**Senator CONROY**—Sorry.

**Dr Watt**—If you're referring to the 2002-03 issue—

**Senator CONROY**—Yes.

**Dr Watt**—I am now talking about net debt, which is only an issue once the asset begins to be sold. The government has made it clear that it will only sell Telstra if a certain price is reached, and that price is reflected in the estimates for the reduction in net debt—the estimates for the reduction of asset sales proceeds.

**Senator CONROY**—I accept that that is what you are stating, but the fact that the government makes an assumption about a future sale price in no way allows you to breach the accounting rules and state something above market value. I repeat: I have heard of accounting treatments that allow you historic, deprivation—we've talked about it today—and market, yes. I just don't know an accounting standard that allows you to put a 20 per cent premium on and claim it to be a fair dinkum figure.

**Dr Watt**—I will just consult with my colleagues, Senator. You are talking about 2002-03?

**Senator CONROY**—No, let's not worry about the net debt issue down the track.

**Dr Watt**—That's fine: 2002-03. Senator, I accept your proposition that the estimate is not one we should have applied.

**Senator CONROY**—Not one you should have applied?

**Dr Watt**—No.

**Senator CONROY**—So you accept you're in breach of the accounting rules? Does this document in front of us now provide a true and fair picture of the government's current position?

**Dr Watt**—I think the document still provides a picture of the government's financial position. It is pretty easy to see what the assumption made in 2002-03 does to net worth in 2002-03 but, as far as I understand it, this particular revaluation does not affect anything else within the document. So, in a sense, is that net worth number now not a cost estimate? I am saying the answer is yes.

**Senator CONROY**—I may come back, but I will move on for the moment while I genuinely digest this. Page 8-8 of Budget Paper No. 1 notes that the budget adopts the ABS GFS treatment of debt transactions relating to repurchase premia. Could you please explain what treatment was being applied in the previous budget papers and why a departure from the GFS framework was not reported in the budget papers as required by the Charter of Budget Honesty Act? You said just before that no other statement was affected by this particular calculation. How will it affect Budget Paper No. 1, appendix B, Budget financial statements, on pages 2-14 and 2-15? Under table B2, Commonwealth general government sector balance sheet, equity is \$49 billion. That is Telstra. Does this figure contain the 20 per cent premium? It is under assets and equity. It has to include Telstra.

**Mr Ash**—It will be in the equity line.

**Senator CONROY**—It has to be because the bottom line—

**Dr Watt**—Yes, it will be affected.

**Senator CONROY**—The Commonwealth government general sector statement of other economic flows reconciliation net worth is wrong; the Commonwealth general government sector balance sheet is overstated by \$5 billion. That is correct?

**Dr Watt**—It is of that order of magnitude, Senator.

**Senator CONROY**—Are there any other tables we think there is a flow-through effect on? Do you want a couple of minutes to consider that before you answer?

**Mr Kerwin**—It would be any table where there are net worth figures.

**Senator CONROY**—Would you like to take us through a list of which tables they would be?

**Mr Ash**—Table 2 on page 95 has a net worth figure in it, as does table 4 on page 9-7. On page 13-7 there is a net worth figure. There is also a net worth figure at table 5 on page 2-10.

**Senator CONROY**—Would you like to break for five minutes?

**Dr Watt**—I think you get the point, Senator: it does flow through the budget papers.

**Senator CONROY**—I am going to want a complete list of all these tables now. I am happy to take a break for a couple of minutes while you finish compiling the list and then I would like you to read them out.

**Dr Watt**—We are happy to take a break and compile the list for you.

**Proceedings suspended from 8.12 p.m. to 8.26 p.m.**

**Senator CONROY**—We were just discussing, prior to the break, the impact on the budget papers of the government's balance sheet and other tables from the overvaluation, the breach of the accounting standards and your earlier comments that everything was valued at market value, when we then discovered that Telstra was overvalued by maybe 10 per cent in your book. Would you take me through page by page and each table that now is incorrect and will, I presume, need to be re-issued with the correct figures?

**Dr Watt**—We will correct the figures, Senator.

**Senator CONROY**—How many tables will need to be re-issued?

**Dr Watt**—There are a number that need to be corrected.

**Senator CONROY**—Would you take me through each of them, please?

**Dr Watt**—Mr Kerwin can give you the numbers.

**Senator CONROY**—I would like the table number and the page.

**Mr Kerwin**—Page 2-10, table 5; page 2-15, table B2; page 2-17, table B4; page 9-5, table 2; page 9-7, table 4; page 12-14, table 4; page 13-7, table 4.

**Senator CONROY**—Is that all at this point?

**Mr Kerwin**—As far as we know.

**Senator CONROY**—Would any of the other budget papers have a similar problem to Budget Paper No. 1? Would any of the other budget papers be similarly affected?

**Mr Kerwin**—No.

**Senator CONROY**—Will the commentary that goes with all of these tables need to be revised?

**Mr Watt**—We will have a look at that, Senator. For example, as we discussed earlier, the issue of net worth. I presume there is a commentary piece on the issue of net worth. As we have agreed, net worth has been overstated in the magnitude of \$5 billion.

**Dr Watt**—We will see that the figures are corrected, senator.

**Senator CONROY**—I just want to ensure that you agree that, at this point in time, the Commonwealth's balance sheet is overstated by in the magnitude of \$5 billion.

**Dr Watt**—Yes, I agree that that is the case in 2002-03. We will correct the figures, Senator.

**Senator CONROY**—And you said that net worth had improved? That cannot be right.

**Dr Watt**—No, Commonwealth net worth is negative in 2002-03 and in all the out years. Net worth can still improve or decline but it is a negative number. Just excuse me, Senator.

**Senator CONROY**—Certainly; please keep consulting.

**Dr Watt**—We will need to check these numbers a little bit further, Senator. I think our initial reaction that there is a \$5 billion difference is wrong. I have just been told it is more like \$3 billion.

**Senator CONROY**—Three billion?

**Dr Watt**—Three billion. It seems to be a Reserve Bank transaction—sorry, something that affects the valuation of the Reserve Bank assets, but we are checking the numbers further. We will have an answer for you shortly.

**Senator CONROY**—What Reserve Bank transaction?

**Dr Watt**—A Reserve Bank valuation, I think, Senator.

**Senator CONROY**—Can you tell me how the overvaluation flows through the balance sheet?

**Dr Watt**—Can you be a bit more specific with your question?

**Senator CONROY**—I was hoping you could take me through what the impact on the balance sheet is—how this overvaluation impacts on the numbers in the bottom line.

**Dr Watt**—I think the answer is that the overvaluation means you have higher net worth and therefore the net worth is higher than it otherwise would be—as simple as that.

**Senator CONROY**—A higher net worth?

**Dr Watt**—Sorry, a smaller negative to net worth, which is another way of saying that net worth has improved. Just excuse me a minute again, Senator.

**Senator CONROY**—Please.

**Dr Watt**—We might just have a minute, Senator, to check the numbers.

**Senator CONROY**—Yes.

**Proceedings suspended from 8.33 p.m. to 8.43 p.m.**

**CHAIR**—I call the committee to order.

**Dr Watt**—Senator, we do need to check our numbers a little further. We do need to go back and look at some sort of history of the Telstra share price, which we are endeavouring to do tonight. We may not have an accurate estimate for you by the end of this evening, but we will do our best to have it. There is more than one thing in that \$5 billion valuation estimate. Part of it is Telstra valuation. There is also some impact from the Reserve Bank.

**Senator CONROY**—What would be the Reserve Bank's assets that were revalued? Because the dollar has gone up, they hold foreign currency. They have made losses. They have no dividend. I am trying to work out what asset they would have had that would have been revalued. Their forex portfolio fell in value. I am confused as to what it is that the Reserve Bank—

**Mr Kerwin**—What it is is the Commonwealth's interest in the Reserve Bank in relation to the net assets, and the net assets have moved in the period.

**Senator CONROY**—The net assets of the Reserve Bank?

**Mr Kerwin**—Of the Reserve Bank.

**Senator CONROY**—Yes, the net assets have gone down.

**Mr Kerwin**—No, they have gone up.

**Senator CONROY**—What are the assets of the Reserve Bank?

**Mr Kerwin**—That is between 2001-02 and 2002-03.

**Senator CONROY**—Yes, but they booked up a forex loss last year. What are the assets that could have gone up? What would their assets be?

**Mr Kerwin**—I honestly do not have that information. I will just see if we have it here.

**Senator CONROY**—Please.

**Mr Olliffe**—The adjustment that was made was for a dividend payable. That was in the Reserve Bank's balance sheet but it is not recognised under GFS. Therefore there is an improvement in the Commonwealth's equity in the Reserve Bank.

**Dr Watt**—In 2002-03.

**Mr Olliffe**—Yes, in 2001-02, and it has flowed through to 2002-03. Under GFS, for the net assets for those corporations that are not listed, such as Telstra, our proxy to a market valuation is taking the net asset position.

**Senator CONROY**—Sorry, Telstra is listed.

**Mr Olliffe**—Telstra is listed.

**Senator CONROY**—The Reserve Bank is not.

**Mr Olliffe**—The Reserve Bank is not. There is only one listed corporation and that is Telstra. The Reserve Bank is not listed. Therefore, under the GFS rules, the proxy to a market

valuation is taken to be the net assets of the corporation. Under GFS, this dividend payable, which the ABS has informed us should not be included in the balance sheet of the Reserve Bank, is therefore taken out, and therefore the net assets of the Reserve Bank rise and therefore the Commonwealth's equity in the Reserve Bank rises.

**Senator CONROY**—Two years ago they paid the dividend to the government.

**Mr Olliffe**—No, it is the dividend payable. It is not paid; it is payable.

**Senator CONROY**—Payable?

**Mr Olliffe**—Payable. Under GFS rules, you do not recognise that payable until it is actually declared or paid and therefore that payable, which is recorded in the Reserve Bank's balance sheet, is not applicable to GFS rules. Therefore the Commonwealth's general government equity in the Reserve Bank is higher than we originally anticipated in 2001-02 and that flows through into 2002-03.

**Senator CONROY**—The suggestion from Dr Watt was that it seemed to be around \$2 billion.

**Mr Olliffe**—Well, it is about \$1.9 billion

**Senator CONROY**—You think that it is \$1.9 billion?

**Mr Olliffe**—It is \$1.9 billion. And net assets of other corporations have risen by \$0.2 billion so it is \$1.9 billion plus \$0.2 billion plus the Telstra revaluation, which adds up to the \$5.3 billion.

**Senator CONROY**—So that still leaves us around \$3 billion if you are right so far. You want to refine that a little bit, I understand.

**Dr Watt**—We will wish to refine that number, Senator—

**Senator CONROY**—I understand.

**Dr Watt**—when we have had a look at some history of the Telstra share price.

**Senator CONROY**—The history of the Telstra share price won't matter. You adopted a new standard which you have breached. I appreciate you can give us the history tomorrow when you have got it.

**Dr Watt**—The point is that this convention has long been used.

**Senator CONROY**—I think you have already admitted that you should not have, in this paper. You are on the record as saying that you shouldn't have.

**Dr Watt**—The convention has long been used. It should not have been used in this case.

**Senator CONROY**—Is anything else valued at above market prices?

**Dr Watt**—Not that we are aware of, Senator.

**Senator CONROY**—That's it?

**Mr Olliffe**—Telstra is the only listed corporation, therefore it is the only one we actually refer to the share price. Everything else we refer to the net asset position, as reported by the corporation.

**Senator CONROY**—Last year the budget papers said you valued Telstra at market prices. Was it valued at market prices last year? There is a box.

**Mr Olliffe**—The way we value it for the GFS is that, for the final budget outcome, we take the share price as at 30 June. So whatever share price occurs on 30 June we record that in the final budget outcome. In terms of estimates, as Dr Watt has told you, the convention has been to assume the same share price. It is like the spot rate which you talked about. They use the same one for all forward years. The convention has been to use the same share price for all forward years. The best assumption is the assumption that has been used for the proceeds of future Telstra sales whenever they occur. We just use the same share price to make them consistent across the years.

**Senator CONROY**—You have back-ended it. You have said, ‘Here’s what we want to get,’ and then you just float it backwards into the valuation.

**Mr Olliffe**—We looked at the market valuation and said, ‘Let’s make it consistent across years without trying to predict different share prices in different years.’ The best point of reference was the assumed proceeds, whenever the future sales of Telstra would occur.

**Senator CONROY**—In last year’s budget papers—it is the comparison of boxes between AAS31 and GFS; I do not have it handy but I can get it in a second—there was a box that specifically said, ‘Public corporations, which include Telstra, is valued at market prices under GFS and historic cost under AAS31.’ That table has now disappeared from this year’s statement. Is there a reason for that?

**Mr Olliffe**—In Budget Paper No. 1? I thought it was still in there.

**Senator CONROY**—The table is still there, but the words are different. Someone has deleted the key words.

**Dr Watt**—Could you refer me to the specific table, Senator?

**Senator CONROY**—In last year’s it was on page 10-13. It said, ‘Selected differences between AAS.’ That would be familiar to you; certainly Mr McPhee has seen it. I am not sure what page it is on in this year’s.

**Mr Olliffe**—It is on page 8-12.

**Senator CONROY**—If we compare the key—

**Dr Watt**—We are trying to track down a copy of last year’s budget paper.

**Senator CONROY**—I have it here. Last year’s said, ‘Investments in public corporations are valued at current market value. For publicly listed corporations the share price is used to calculate market value for non-listed corporations’ current value.’ In the new box it says, ‘Individual assets and liabilities are measured at current market value based on current market prices or a suitable proxy when market prices are not available.’ It is not quite the same.

**Mr Olliffe**—I think it is just a refinement, Senator.

**Senator CONROY**—I am confident it is refined.

**Mr Olliffe**—I do not think there is any other reason for it. The suitable proxy when market prices are not available, as I mentioned, is the net assets of the corporation.

**Senator CONROY**—It is a deletion of the ‘publicly listed corporations’.

**Mr Olliffe**—I think it is just a refinement of words. I think the meaning is still there.

**Senator CONROY**—After all this excitement I will move on. I am sure I will come back to this, so thank you for where we are at so far.

**Dr Watt**—I think we will be coming back to it, Senator.

**Senator CONROY**—I have no doubt that you are going to have to. I will move on so I can draw breath and think about something else. I was asking a question about page 8-8 of Budget Paper No. 1, which notes that the budget adopts the ABS GFS treatment of debt transactions relating to repurchase premia. Can you explain what treatment was being applied in the previous budget papers and why a departure from the GFS framework was not reported in the budget papers as required by the Charter of Budget Honesty Act.

**Mr Olliffe**—I do not think it is a departure, Senator. The new GFS manual, as you know and as you have mentioned, is an accrual manual and it is reasonably silent on cash. We have had discussions with Treasury and the ABS about how to improve our GFS assessments, as we have done every year. This year we have had a discussion about how we should perhaps be treating these cash transactions, which are not actually explicitly mentioned in the new GFS manual.

There was agreement between the Treasury, ABS and ourselves that the previous treatment is not against the rules, but the proposed treatment that has been introduced in this budget is probably more consistent with the new GFS manual. There are no explicit rules that we have broken in terms of the way we treated cash transactions in previous budget documents. This is just an improvement—a refinement—agreed between the various agencies who have knowledge of GFS standards.

**Senator CONROY**—Footnote (a) states that the opening net worth includes a reduction in the net worth of \$2.5 billion due to the adoption of market valuation of debt. Can you confirm that net worth has fallen by \$2.5 billion because the government has now recognised a \$2.5 billion increase in the value of government debt in 2002-03?

**Mr Olliffe**—I think that is covered in box 1 in 2.1.2, which goes into a great deal of detail and actually shows the difference between net debt at historic cost and net debt at market value.

**Senator CONROY**—You’re confirming that?

**Mr Olliffe**—The 2.5 billion.

**Senator CONROY**—I’m just a bit slow. You will have to bear with me; I work through things a bit slowly. The footnote also states that this change has been backcast to 1999-2000—a fascinating term. I’m not quite sure if I have ever come across it in an accounting sense before.

**Dr Watt**—It’s a very common economic term, Senator.

**Senator CONROY**—I know it’s a common economic term but this is a set of accounts. I have just never wandered into it in a set of accounts before.

**Dr Watt**—Oh well.

**Senator CONROY**—Can you explain what increase in debt has been recognised in each of the financial years 1999-2000, 2000-01 and 2001-02?

**Mr Olliffe**—The actual details were provided by AOFM. If you're asking me about the actual details, I think that should be—

**Senator CONROY**—I'm asking for the numbers.

**Mr Olliffe**—Well, the numbers—

**Senator CONROY**—Can you confirm to me what the actual numbers are?

**Mr Olliffe**—The numbers are in box 1 of 2.1.2.

**Senator CONROY**—Could you read them out for me? I just don't have it handy.

**Mr Olliffe**—Net debt historic cost for 1999-2000 is 53.106—that is at historic cost—and at market value it is 57.560. In 2000-01 net debt historic cost is 39.258, and net debt at market value is 42.651. In 2001-02 net debt historic cost is 35.568, and net debt at market value 38.022.

**Senator CONROY**—Could you just give me the increase in debt, not net debt?

**Mr Olliffe**—I can't tell you from this table because it is a net debt table.

**Dr Watt**—If you wish to get the increase in gross measures we can undertake to provide those for you, Senator. We don't have them to hand. We can see if we can get them tonight. Those numbers are generated by the AOFM, not by the department of finance. We do take them, therefore, from the AOFM—we're not pretending to be experts—but we can get them from them. We may have to take that on notice.

**Senator CONROY**—I asked before: can you confirm that net worth has fallen by \$2.5 billion because the government has now recognised a \$2.5 billion increase in value of government debt—not net debt but government debt? You confirmed that earlier—you were able to confirm that figure.

**Dr Watt**—I think what we have said, Senator—

**Senator CONROY**—I think Mr Olliffe is nodding. *Hansard* does not record a nod.

**Mr Olliffe**—Dr Watt is answering the question, Senator.

**Dr Watt**—I think Mr Olliffe was talking about the net debt numbers here—

**Mr Olliffe**—Those are the numbers I have read out, yes.

**Dr Watt**—That's right. Now the question is: does that translate unambiguously into net worth? That's what we need to check.

**Mr Olliffe**—The net worth changes are footnoted in the other economic phase tables, being the 2.5—

**Dr Watt**—I think the 2.5—

**Senator CONROY**—The gross debt figure rather than net debt.

**Mr Olliffe**—This is a net debt table. You're talking about net worth. The change in net worth has been \$2.5 billion, as shown in the footnote to the other economic phase tables.



**Dr Watt**—It is the net number that matters, not the gross number, Senator, for net worth.

**Senator CONROY**—The AOFM annual report states that the market value of debt as at 30 June 2002 was \$6.3 billion higher than the face value of the debt. It is a market value of \$60 billion, less face value of \$53.7 billion. Can you confirm that the full \$6.3 billion has been recognised in net worth?

**Dr Watt**—Senator, it might be helpful to us if you could repeat your question, just to make sure that we understand it correctly.

**Senator CONROY**—Certainly. The AOFM annual report states that the market value of debt as at 30 June 2002 was \$6.3 billion higher than the face value of debt—that is the market value of \$60 billion less face value of \$53.7 billion. Can you confirm that the full \$6.3 billion has been recognised in net worth.

**Dr Watt**—Senator, your comparison is between face value and market value.

**Senator CONROY**—I have the AOFM report, if you would like it.

**Dr Watt**—Senator, there are a number of different concepts here.

**Senator CONROY**—I am happy for you to have a think about it and we can move on to another question.

**Dr Watt**—I think we need to take that one on notice and come back to you. We will try to come back to you tonight. In some senses we need a little access to the AOFM's expertise on this. As you say, it is a question of which particular component of government securities goes into net worth. That is the issue. It is not the face value, Senator, I would not have thought, under any circumstances.

**Senator CONROY**—In last year's budget they valued it at face; now they value it at market, which is \$6.3 billion higher.

**Dr Watt**—Again, Senator, we are asking what goes into the net worth numbers. That is what we need to check. We are not doubting AOFM's valuation or your issue about what affects net worth.

**Senator CONROY**—We are asking about gross debt; I want to make that clear.

**Dr Watt**—Yes.

**Senator CONROY**—I am happy to let you take that on notice and have a think about it. Hopefully, we will get back to it tonight. I was talking about the back-cast of the debt. Can you explain why this back-cast has been included over four years, three of which are not reported in the budget papers, and not reflected in full in 2002-03 when compliance with the GFS accounting standard has only occurred this year.

**Dr Watt**—Senator, I think there is a real question whether these are questions for the Department of Finance or for the Department of the Treasury and the AOFM.

**Senator CONROY**—Let me just check here: 'Senator the Hon. Nick Minchin'. He is on the front cover; that is you.

**Dr Watt**—Senator, you will find the Treasurer's name on the front cover as well. As you and I both know, different bits of the budget papers are put together by different departments.

We don't do that to be difficult or tricky. We do it because there are different levels of expertise. To answer that sort of question, we will need to go to the AOFM. We are not going to be able to do that tonight, I would not have thought.

**Senator CONROY**—This is a line item in the balance sheet. The Department of Finance should be able to answer a question about a line item in the balance sheet.

**Dr Watt**—I understand it is a line item in the balance sheet, Senator. The valuation of debt and the way in which debt feeds into the balance sheet is a very complex issue. As we want to give you accurate and correct answers wherever we can, we prefer to see that the right people answer. As I said, we can take it on notice and have a look at it, but I think it is something where we need the expertise of the AOFM rather than our own.

**Senator CONROY**—Mr Allen has gone. There is only Mr Comley.

**Dr Watt**—I am sure Mr Comley will be able to give an expert answer.

**Senator CONROY**—I have no doubt that he will acquit himself as he always does. Can you explain why the loss on the repurchase of debt has not been recognised in the current year, when apparently gains on commercial entities have been recognised in the current year? You are treating debt one way and you are treating gains differently. Gains have been lumped into one year—this year—and losses have been backcast over four years.

**Mr Olliffe**—Senator, you are asking why the adjustment was taken back to 1999-2000?

**Senator CONROY**—I am asking why the debt has been backcast over four years and the gains have been accounted for in the one year. It seems to be an inconsistent treatment. By backcasting debt over four years you flatten it out, obviously. But a gain—a revaluation—you are prepared to put all in the one year. I am wondering why you are hiding the debt by recasting it over four years yet you are happy to grab and put it upfront the gain all in one year.

**Mr Olliffe**—I do not think it is a question of hiding. The change in the market valuation of debt was taken back to 1999-2000 purely to provide a consistent time series. We went to accrual GFS in 1999-2000 and we recognised that we were not applying a market valuation of debt at that time. AOFM have had the ability to overcome the evaluation issues. They have had the opportunity to take it back to 1999-2000 purely to provide a consistent time series. Rather than having a break in the series from this year onwards, they have taken it back to the beginning of the accrual GFS to provide a consistent time series.

**Senator CONROY**—I might be prepared to accept that except that the budget puts numbers into the future and, because you have backcast it by three years, it is not reported in any budget papers. It is not in the budget papers. By stretching the number out backwards it is not recorded in any meaningful sense.

**Mr Olliffe**—The effect of the revaluation, the change in the valuation of debt—

**Senator CONROY**—There is a footnote.

**Mr Olliffe**—I accept that, Senator. In terms of the forward year effects it is shown as a separate line item in the economic flows table. There is the line item talking about market evaluation of debt going forward. We have backcast to 1999-2000 to provide a consistent time

series and we have shown the effects of market valuation from that point in time forward to the third forward year. That is in the other economic flows table. We are not hiding the back years impact and we are not hiding the forward year impacts and the market valuation impacts; we are just providing a series from 1999-2000 through to the third forward year.

**Senator CONROY**—Which paper is this table you are referring to in?

**Mr Olliffe**—Other economic flows has a line item dealing with the future impacts of the market valuation of debt.

**Senator CONROY**—That is the future impacts.

**Mr Olliffe**—And the back years impacts are shown as the change to opening net worth, and shown through footnote (a). We are quite transparent in terms of the impact.

**Senator CONROY**—I will discuss transparency with you. Why are other evaluations shown as a line item in the body of the table but debt is only partly shown, and then in a footnote? It does seem to be a little inconsistent and, frankly, less than transparent.

**Mr Olliffe**—The back years impact is shown. The change in opening net worth is \$2.5 billion different from the closing net worth of the final budget outcome.

**Senator CONROY**—Yes, but when you backcast it you are changing numbers, if you like, retroactively that are not being declared.

**Mr Olliffe**—They are declared in the market valuation in box 1 on page 2-12, which shows the impact on net debt back to 1999-2000.

**Dr Watt**—I think we have got pretty transparent non-declaration, I would say.

**Senator CONROY**—A pretty transparent footnote down the bottom that makes reference to an accounting treatment. I wonder what the Auditor-General would think of backcasting figures, but that is something I guarantee you I will be chatting with him about. For the moment I will move on, but thank you. I may come back; as I said, I reserve my right to come back to some of these as I digest them. Page 75 of the DOFA PBS reports that due to an 'actuarial revaluation'—Senator Sherry, you have arrived just at the right moment—'the opening balance of the unfunded superannuation liability has been revised upwards' by \$4.6 billion. Is that correct?

**Dr Watt**—That is correct.

**Senator CONROY**—You have been abandoned—Mr Kerwin has abandoned you.

**Dr Watt**—Let me get the relevant officer—we have people coming from next door. But that is correct: it reflects the regular revaluation we do of our superannuation liabilities which are done every three years as part of a long-term cost report. That report was received prior to the budget. The impact of it is carried through in the budget figures.

**Senator CONROY**—Okay. I am sure we are going to revisit that last commentary of yours, Dr Watt. In paragraph—

**Dr Watt**—Senator, if you would just give us a moment so I can get these people acquainted with where we are.

**Senator CONROY**—Certainly.

**Dr Watt**—Senator, please proceed.

**Senator CONROY**—Paragraph 4.51 on page 43—

**Dr Watt**—Of which document, Senator?

**Senator CONROY**—Your PBS. I am sorry, it is paragraph 4.51 on page 43 of the IMF GFS manual.

**Dr Watt**—That is certainly not our PBS.

**Senator CONROY**—Yes, that is a little different. On page 43 it states:

... the Statement of ... Economic Flows presents influences on the government's net worth that are not the result of transactions—

We had a chat about that a little earlier. The paragraph states:

4.51. Changes in the volume of assets and liabilities ... may arise for a variety of reasons—

And they include—

... a change in the liability of a defined benefit pension plan resulting from a change in the benefits covered ...

Does that ring a bell?

**Dr Watt**—Not specifically, Senator, but keep going.

**Senator CONROY**—You will accept that I am just reading verbatim. Has there been any change of the benefits covered of the Commonwealth superannuation schemes?

**Mr Painton**—There has been a revaluation of the superannuation liability.

**Senator CONROY**—No, I asked if there had been any changes in the benefits covered.

**Mr Painton**—There have been no significant changes in the scheme rules and hence in the actual benefits provided in the sense of what the scheme rules say. What there has been is a re-estimation of what the value of those benefits will be in the future.

**Senator CONROY**—Paragraph 10.21 of the GFS manual states:

... a holding gain—

or loss—

is recorded with respect to the liability for a defined-benefit retirement scheme when there is a change in the value of the liability because of a change in the interest rate used to discount the future benefits. The liability should be reviewed periodically and revalued as necessary for changes in market interest rates. A holding gain—

or loss—

is recorded with respect to the liability for a defined-benefit contribution retirement scheme whenever a holding gain is recorded with respect to the assets of the fund.

I understand that the *ABS Australian System of National Accounts: concepts, sources and methods 2000* on page 326 says that the discount rate applied in the calculation of superannuation liabilities is the long-term discount rate. Is that correct?

**Mr Painton**—For the purpose of our superannuation liabilities, we rely on discount rates provided to us by the actuaries or set out in the actuarial assumptions.

**Senator CONROY**—Sorry, I should have said that the ABS *Australian System of National Accounts: concepts, sources and methods* says that the discount rate applied in the calculation of superannuation liabilities is the long-term bond rate. Sorry, that is what I should have been.

**Mr Painton**—The actuarial assumptions that are normally used are broadly consistent with long-term bond rate assumptions in the actuarial assessment.

**Senator CONROY**—Broadly consistent?

**Mr Painton**—The actuaries have to work out a discount rate having regard to what factors they think are going to apply over the next 40 years and what—

**Senator CONROY**—I understand what an actuary does. What I am trying to understand is what figure you have used.

**Mr Painton**—What I am saying is that, for the actuarial revaluation we have had, the actuaries have looked at what the appropriate discount rate is, and that the discount rate they have chosen is one that they have in effect based on the long-term bond rate. That is my understanding.

**Senator CONROY**—How much is the variance? You keep saying ‘in effect’—you keep qualifying—so I am trying to understand how much the variation is. I want to get the factual issue before we talk about the methodology.

**Mr Painton**—Factually, for the long-term cost report for the CSS and the PSS that has just been completed, the actuaries had chosen a discount rate of six per cent. My understanding is that they have essentially gone back and looked at what they think movements in bond rates have been over time and thought that was an appropriate one to choose as a long-term discount rate having regard to the bond rate.

**Senator CONROY**—Is that a change in the discount rate? What was it?

**Mr Painton**—In the last long-term cost report, the discount rate used was seven per cent. However, because it interacts with other actuarial assumptions that have also changed in the same direction, the actuarial gaps which actually determine the valuation have not changed. In effect, that has not affected the size of the estimated liability.

**Senator CONROY**—That was a great answer, I have to say!

**Dr Watt**—It was an accurate one.

**Senator CONROY**—I am not suggesting that it was anything but accurate, but that was a beauty.

**Mr Painton**—I apologise, Senator, but that is what actuaries do.

**Senator CONROY**—I have two sets of questions here—for whether there was a change or whether was not a change. I am trying to work out exactly what that answer meant.

**Mr Painton**—I think what it means is that there was a change but it does not actually affect the size of the liability.

**Senator CONROY**—So the change did not account for all of the \$4.6 billion evaluation, if any.

**Mr Painton**—No. My understanding is that the change in the discount rate did not have any effect on the change in the unfunded liability. That is my understanding.

**Mr McPhee**—Senator Conroy, I just want to make the technical point that the PBS statements are prepared under AAS accounting standards rather than GFS. As we explained earlier, though, we do the adjustments to take the AAS accounts through to the GFS in the department. I am not suggesting your line of questioning is not appropriate; I am just making the technical point that these are prepared under Australian accounting standards.

**Senator CONROY**—Why is the actuarial revaluation included in other economic flows?

**Mr Painton**—It is because that is the GFS treatment—

**Senator CONROY**—Shouldn't it be treated as an error? Isn't it the point in case that, if this actuarial revaluation was correctly treated under GFS accounting standards as an error rather than as a revaluation, this would not lead to an increase in expenses and could, depending on its size, swing the fiscal balance for 2002-03 from surplus to deficit? It should be treated as an error, Mr Painton.

**Mr Painton**—I think that, as set out in the budget papers, the description of the GFS treatment makes specific reference to superannuation revaluations as being one of the issues that are given that treatment.

**Senator CONROY**—Isn't it the case that any changes in liabilities not due to either a change in volume due to benefits or a change in price due to the discount rate should correctly be treated under GFS accounting standards as an error, rather than as a revaluation, and that this would lead to an increase in expenses for 2002-03 and swing the fiscal balance from 2002-03 from surplus to deficit? It is quite clear.

**Dr Watt**—Senator, I think we have an answer for you.

**Mr Kaufmann**—Under Australian accounting standards, with actuarial revaluations, particularly in respect of defined benefit schemes, the increase or whatever in the liability resulting from an actuarial revaluation goes to profit and loss. In GFS it is treated as a revaluation and as such, like all other revaluations, goes to the statement of other economic flows, not into the GFS operating result.

**Senator CONROY**—I am going to disagree with you for the moment, and we will have a bit of an argument. It is quite clear it is an error, not a revaluation, because it is not a change in either the volume due to the benefits—we have had Mr Painton say there is no change in the benefits structure, no change at all—or a change in price due to the discount rate. He said there was no impact on it because of the change in the discount rate; it is not there. The two reasons that allow you to treat it in the way you are describing are not in place in this case. It should be treated as an error.

**Mr Olliffe**—No. The ABS do not agree with that statement, because they agree with us and with Treasury on the treatment of this revaluation.

**Senator CONROY**—GFS is very specific.

**Mr Olliffe**—But, just as the ANAO is the keeper of the Australian accounting standards, the ABS are the keeper of the GFS and they agree with our treatment, so perhaps we just agree to disagree.

**Senator CONROY**—Could you please get the standard out and read it to me, because I have read it.

**Mr Olliffe**—Obviously it is a difference in interpretation, but the ABS, who interpret the GFS standard, have agreed with the Finance treatment. We have always treated revaluations with superannuation, and we have been quite transparent in our presenting it since the 1999-2000 move to accruals. We have always treated it that way, and the ABS have accepted our treatment. Therefore they must interpret the GFS standard in the same way as we interpret the GFS standard.

**Senator CONROY**—What does the Auditor-General say?

**Mr Olliffe**—The Auditor-General is not the keeper of the GFS standard. We are talking about the ANAO. We refer to the ANAO for the AAS interpretation, just as we refer to the ABS for the GFS interpretation—and they agree with our interpretation.

**Senator CONROY**—So you still want to claim this is a revaluation?

**Mr Olliffe**—Yes, we always have been quite transparent about it, and the ABS have not contradicted it.

**Senator CONROY**—But which of the two things that allow you to call it a revaluation are you claiming it over? Clearly, it is not a change in volume due to benefits—do we agree?

**Dr Watt**—I think the point is that the ABS—

**Senator CONROY**—No, I would like you—

**Dr Watt**—I think we can solve this fairly quickly. I think the point is that the ABS do not necessarily accept the IMF's views on this and that Finance is consistent with the ABS treatment.

**Senator CONROY**—Which of the two criteria defined in the GFS is it? I am just asking. You have obviously made a call in one direction and now I am going to ask you to explain under which criteria you have made the call.

**Senator Minchin**—They are the IMF's criteria. We have already explained to you—

**Senator CONROY**—Two budgets ago, DOFA expense to revaluation 'above the line'—give me a break here! Two budgets ago, it was above the line.

**Mr Olliffe**—Can you refer to that? Can you be more precise? Can you provide information on that?

**Senator CONROY**—I will.

**Dr Watt**—Have you checked that, Senator?

**Senator CONROY**—I am happy to supply that. I will happily supply that to you shortly. Coming back to my question about whether you believe that it is a change in volume due to benefits—and I do not think you can, because Mr Painton said it is not; there had been no change—do we agree on that?

**Mr Olliffe**—Yes.

**Senator CONROY**—We agree. Thank you.

**Dr Watt**—Senator, it might be useful for your background if we indicate to you why the valuation has changed; then perhaps we can have a better argument.

**Senator CONROY**—That is what I am saying. Please take me through the change in price due to the discount rate.

**Mr Hutson**—To refer briefly to the factors that have contributed to increasing the unfunded liability, they include the increased life expectancy of retired members; the greater tendency of members to retire early which leads to them accessing more generous benefits; and retrenchment exits which have been taken into account in the revaluation for the first time.

**Senator CONROY**—Sorry?

**Mr Hutson**—Retrenchment exits which have been taken into account in the estimates for the first time.

**Senator CONROY**—That is not a change in the benefits though.

**Dr Watt**—Senator, we are describing for you what the causes of the changes have been in the estimates.

**Senator CONROY**—I appreciate that, but that does not affect the volume due to benefits. It affects the volume, but not because of a change in the benefits.

**Dr Watt**—We are not suggesting that these fit in with the particular criteria you are quoting. We are explaining to you the causes of the revaluation. As I said, this is consistent with what we believe to be the ABS treatment in GFS.

**Senator CONROY**—I am looking at Budget Paper No. 1 2000-01 page 6-41 and trends in expenses from the Department of Finance and Administration. It states:

The reduction in administered expenses under the Commonwealth superannuation schemes between 1999-2000 and 2000-01 largely reflects a one-off effect on expenses in 1999-2000 arising from the revaluation of the superannuation liability.

**Mr Olliffe**—Are these GFS expenses or AAS expenses? I believe that in the earlier periods of the budget papers when we moved to accruals, we emphasised the AAS treatment and at a certain stage we moved to an emphasis on GFS expenses.

**Dr Watt**—Could you just give us that page number again, Senator?

**Senator CONROY**—Yes, 6-41.

**Mr Olliffe**—I think you will find that it is a difference in the emphasis on AAS expenses rather than GFS expenses.

**Dr Watt**—We can check that and confirm it for you, Senator. We can do that now.

**Senator CONROY**—Dr Watt, in relation to the two criteria I have outlined, which I say is the GFS standard on this, you are not suggesting that this change fits within either of those two criteria; you are saying that it is a completely different issue. I am not trying to verbal you and *Hansard* will be exact—



**Dr Watt**—Perhaps I will answer it in my own way. I think my officers were suggesting that the finance treatment is consistent with the way the ABS interprets GFS standards in Australia and the ABS does not appear to follow the same treatment as the IMF.

**Senator CONROY**—So this revaluation that you have, to use your description of it—

**Dr Watt**—To use an accurate description of it, Senator.

**Senator CONROY**—The IMF would say that you are wrong, so it is yours.

**Dr Watt**—We think it is—

**Senator CONROY**—I accept that. You were trying to be a little pedantic there so I am just responding in kind. The revaluation has been reflected—

**Mr Olliffe**—Can I raise one point, Senator?

**Senator CONROY**—Please.

**Mr Olliffe**—The IMF actually published the 2002 year book and Australia and Iceland were the only countries identified as moving to accruals. My understanding is that they have taken the ABS data to include in that year book and, as far as I understand it, the ABS data is consistent with the way we treat these revaluations so I would think that the IMF is publishing consistent data. However, I can check on that.

**Dr Watt**—We would be happy to check that for you too, Senator.

**Mr Olliffe**—I am reasonably sure that that is correct.

**Senator CONROY**—This revaluation has been reflected in a separate line item at table B4—is that correct?

**Mr Olliffe**—Yes.

**Senator CONROY**—Could you explain why the revaluation in the value of the public debt has not been reported as a line item but simply as a change in the opening network?

**Mr Olliffe**—It is a presentational issue, Senator.

**Mr Kaufmann**—Can I clarify your question about the valuation of debt?

**Senator CONROY**—The value of public debt.

**Mr Olliffe**—The market valuation adjustment.

**Mr Kaufmann**—The market valuation adjustment—the \$2.5 billion? Footnote (a)—

**Senator CONROY**—Yes. Let me come back to that in a second.

**Mr Kaufmann**—I am trying to respond to your question.

**Senator CONROY**—I appreciate that. I will clarify it for you so you can respond accurately. I will come back to it in a second. It is in Budget Paper No. 1 for 2003-04, page 2-6, and it states:

... increased superannuation related expenses of \$316 million, largely resulting from an actuarial review of the Commonwealth's civilian superannuation schemes, which has resulted in the incorporation of an allowance for the effects of factors such as redundancy costs, lower than previously estimated mortality rates, and an increased take-up of the more generous early retirement options.

They are GFS figures, aren't they?

**Mr Painton**—Could I clarify that? There are two components. One is the actual revaluation—the increase in the liability at the point in time. Once you do that, that has flow-on effects to the GFS because certain GFS expenses such as nominal interest are based on the actuarial revaluation. So there are actually two components to revaluation in the GFS expenses.

**Senator CONROY**—You treated it one way with the civilian and in a different way with—I take Mr Painton's point; I am not sure it makes a difference, but that is how you have described it in this year's budget papers for exactly the same argument you have been making. So it seems like you are treating them differently to me. Now, I am happy to have it explained but it just seems that they are being treated slightly differently. I refer to page 2-6.

**Mr Painton**—That is a reference to, in effect, the flow-on effects from the revaluation. If you have a one-off revaluation—an increase in the value of your unfunded liability—your expenses in future years are going to be higher because those expenses are based on the actual feed-off from the actuarial valuation. You are actually picking up the annual increase in expenses that are going to occur in the future.

**Senator CONROY**—This is GFS?

**Mr Painton**—Yes, the GFS—

**Senator CONROY**—Variations in expenses? They are above the line. This one is a modest 316, and it is going to be above the line, and the \$5 billion—the 4.6—is below the line.

**Mr Olliffe**—Because of the nature of the change, yes. This equates to current period government operations while the revaluation actually relates to past periods and therefore is actually shown as a one-off change in other economic flows to change the net worth calculation, and from then on, as Mr Painton has explained, it works off a higher liability valuation.

**Senator CONROY**—So if you estimate expenses they go above the line but, if you revalue those expenses up because you made an error on your actuarial assumptions, they slip below the line? Is that what you are arguing?

**Dr Watt**—I don't think the issue is an error in the actuarial assumptions.

**Senator CONROY**—That is my description of the word but the fundamental point I am making—

**Dr Watt**—There was no error made in the actuarial assumptions.

**Senator CONROY**—A change in the actuarial assumptions.

**Dr Watt**—Actuaries do change their assumptions over time—

**Senator CONROY**—So for your estimated expenses it is above the line. But if you revalue the expenses up because of a change, they go below the line?

**Mr Olliffe**—Because it relates to past periods, Senator.

**Ms Seeber**—The revaluation is in relation to the unfunded liability. As Mr Olliffe explained, we are treating it consistently with the GFS treatment agreed to by the ABS. The expenses issue is really, if you like, the effect of the revaluation on the unfunded liability and how it flows through to future expenses. Basically it will cost more because of the revaluation. The expenses are, if you like, the nominal interest related to those benefits. We can go through—

**Senator CONROY**—Please.

**Ms Seeber**—the changes with you, because there are other effects as well.

**Mr Panton**—There are effectively two forms of ongoing superannuation expenses that feed through the GFS. One is basically superannuation accrual—each year, people who are currently members of the scheme have an additional year's employment in the scheme. You would appreciate that, with respect to these defined benefit schemes, because of benefit multiple accruals and other things, every year people's benefits go up because of that. So that is one component of superannuation expense.

The other GFS superannuation expense is the nominal interest, which has been described as, in effect, the ongoing cost of not funding the liability. In effect, because what you are looking at is the present value discounted—it is future benefits to be paid and you are looking at the discounted values of those—when you go forward an extra year, the present value increases simply because you are one year closer to when you actually pay them off. In effect, the bigger your liabilities, the higher your nominal interest expenses are as a result of that. When you look through the GFS tables, which are summarising the Commonwealth's GFS expenses, you will see these two superannuation lines—accrual interest and superannuation interest. Those are the two items which feed into the GFS. The reference that you alluded to on page 2-6 refers to how those numbers feed into the GFS expenses. As is stated elsewhere in the budget papers, these particular items are excluded from the GFS expense item.

**Mr Olliffe**—Senator, I refer to a previous question about the 2000-01 reference to expenses in terms of superannuation. I was correct in saying that the 2000-01 expense analysis was on a AAS basis and therefore it includes the revaluation, while in later budget papers the emphasis went to an analysis of GFS expenses which excludes revaluations of superannuation. So my initial response was correct.

**Senator CONROY**—If you look at the piece of paper that I have just asked about, these numbers are taken from this year's and past years' budget papers and are derived from the ABS formula. Do they seem reasonable?

**Dr Watt**—Senator, we will need to check these numbers.

**Senator CONROY**—I appreciate that. By looking at those you can see whether I have made some structural errors.

**Dr Watt**—I think we will need to check them.

**Senator CONROY**—I understand that. I just wanted you to have them. I want to talk about the increase in superannuation expenses. Page 25 of the portfolio budget statements for Finance and Administration for 2002-03 shows an estimated expense of \$9.3 billion for 2002-03 for superannuation benefits. Is that correct?

**Mr Painton**—That \$9.3 billion is effectively for the CSS and PSS schemes, yes.

**Senator CONROY**—The corresponding table on page 69 of the portfolio budget statements—

**Mr Painton**—This is PBS 2003-04 we are talking about, isn't it?

**Senator CONROY**—I was talking about PBS 2002-03.

**Ms Seeber**—Page 25, was it?

**Senator CONROY**—Maybe I have a typo again.

**Ms Seeber**—In the current year's PBS, page 25 has the estimates of expenses.

**Senator CONROY**—You have 2003-04, which is on page 25. So the \$9.3 billion is consistent. The corresponding table on page 69 of the PBS for 2002-03 shows an estimated expense of \$4.2 billion for 2002-03 for super benefits. Is that right?

**Ms Seeber**—That is right.

**Senator CONROY**—Can you confirm that there has been a \$5.1 billion increase in the appropriation for estimated superannuation expenses for 2002-03?

**Mr Painton**—We are talking about the CSS and PSS schemes. There are two effects that are feeding through to those estimated expenses for 2002-03. One is the actual revaluation because these estimated expenses are prepared on the basis of the accounting standards and therefore in this case the revaluation is included in the revised estimate. As I said, not only do you have the revaluation but you also have additional factors feeding off the revaluation the actual expenses that are included in the GFS. So those two components added together actually increase your accounting expense for 2002-03.

**Senator CONROY**—But it is \$5.1 billion.

**Mr Painton**—Well, \$9.3 billion versus approximately \$4.2 billion.

**Senator CONROY**—So it is about \$5.1 billion. Has there been an actual review of the military schemes?

**Mr Painton**—My understanding is that there is one currently being completed, but my understanding is at the time the budget papers were being prepared that had not been completed and hence was not incorporated.

**Senator CONROY**—So there has been no revision up or anything like that?

**Mr Painton**—That is my understanding, yes.

**Senator CONROY**—Can I confirm that super liability is estimated at about \$89 billion at the end of 2002-03, according to table B2?

**Mr Painton**—That, of course, includes the military, not just the CSS and PSS.

**Senator CONROY**—The table with the appropriation for the \$9-plus billion is headed 'Expenses'.

**Mr Painton**—That is right.

**Senator CONROY**—Can you confirm the forecast of the super liability for 2002-03 in the 2002-03 budget papers was \$82 billion, according to table B2, page 2-17? That is \$4.9 billion less than previously.

**Ms Seeber**—Is that in this year's budget papers?

**Senator CONROY**—2002-03, I think. I end up with so many years that I start going potty. So it is \$7 billion less; my maths is going to pot as well. It was \$89 billion, it is down to \$82 billion, which is \$7 billion less.

**Mr Painton**—We are talking about the estimated super liability as at the end of 2002-03 as set out in the 2002-03 budget paper?

**Senator CONROY**—Yes, I think so.

**Mr Painton**—I think that was at page 12-13. That was \$84 billion in the 2002-03 budget paper, compared with the figure of \$89 billion in the current budget paper, which is a difference of about \$5 billion. This, as I said, includes the impact of the revaluation and the additional expenses on top of that. There are also some other variations in there.

**Senator CONROY**—Going forward to the end of 2005-06 it is back up to \$98.7 billion?

**Mr Painton**—In the 2003-04 budget paper, that is correct.

**Senator CONROY**—Yes, the forecast for 2005-06.

**Mr Painton**—Yes.

**Senator CONROY**—That is up from the original forecast in 2002-03 of \$82 billion, or did you say it was \$84 billion?

**Ms Seeber**—We said it was \$84 billion.

**Senator CONROY**—It is up from \$84 billion to \$98 billion.

**Mr Painton**—The last figure in the 2002-03 budget paper is for 2005-06, which had \$89.3 billion. The comparable figure for the end of 2005-06 in the current budget paper is \$96.3 billion.

**Ms Seeber**—We are looking at the 2005-06 figure in the current budget paper.

**Mr Painton**—Given that there were no 2006-07 figures published in the previous budget paper.

**Senator CONROY**—You briefly talked about this earlier, Mr Painton: what proportion of the superannuation liability estimated at \$89 billion in 2002-03 is unfunded?

**Mr Painton**—The superannuation liability that is shown here is effectively all unfunded. At the margin there are some small amounts. If payments are due to be made into a separate scheme and are made, there is no longer a liability outstanding.

**Senator CONROY**—So movements in equity markets have no impact on the unfunded portion?

**Mr Painton**—It is slightly more complicated than that, I am afraid. Because these are defined benefit schemes, what people get back is not simply what is put into the scheme plus the earnings. What they get back is worked out under fairly complicated formulas. In some

cases under the schemes what people will get back will be worth more if the schemes have higher earnings rates. In other components they will get back less if the schemes have higher earnings rates. The overall effect tends to be broadly neutral in terms of the unfunded liability.

**Senator CONROY**—The footnote on page 25 of the PBS for 2003-04 notes that the estimated expense for 2002-03 includes an actuarial revaluation of the unfunded superannuation liability. The DOFA web site states that the PSS and CSS are reviewed by an actuary every three years to determine the cost of the schemes. I believe that was mentioned before.

**Ms Seeber**—That is right. This is the latest report, Senator.

**Senator CONROY**—Is the footnote referring to this actuarial review?

**Mr Painton**—That is correct.

**Senator CONROY**—So this is the on-schedule one.

**Mr Painton**—That is correct.

**Senator CONROY**—Could you explain why the original estimates have been revised up so substantially?

**Mr Painton**—The actuary has to work with two things. One is the data he has got, saying, ‘Where are things at the moment?’ as in how many members of the scheme there are, what their salaries are and how many pensioners there are. On top of that he has to lay on top assumptions saying—

**Senator CONROY**—I do not want to sound silly, but that is a fairly static figure.

**Mr Painton**—That is static but then he has to assume what is going to happen to all those people over the next 40 years: when are they going to retire; what type of benefits are they going to take; when they going to die?

**Senator CONROY**—That is what an actuary does.

**Mr Painton**—That is what actuaries do, but every three years they go back and say: ‘What were the assumptions used last time about what is going to happen over the next 40 years, and are those assumptions still appropriate?’ When the actuary looked at it this time, there were several things, that may have been mentioned previously, one of which is that pensioners are living longer. He thought it was appropriate to adjust assumptions about that that had previously been factored in. That increases the cost of the schemes because a large part of the cost is pensions being paid out over the next 40 years or whatever. Another component was that he had a look at some of the changing trends in the scheme—particularly that the CSS people were resigning just before they turned 55, at which point they could get a higher benefit than if they waited until after they were 55.

**Senator CONROY**—Yes, I have heard about the 54-11.

**Mr Painton**—The actuary thought it was appropriate to review the assumptions that had been used in previous actuary reviews and to adjust those to take more account of that sort of behaviour. That has led to an increase in the cost of the scheme. Another consideration is that the CSS, in particular, is unusual compared with a lot of private sector schemes in that, if people can get made redundant, in some circumstances they get a significantly higher super

benefit than if they had not been made redundant. Because that sort of thing tends not to happen in a lot of other schemes, it is not necessarily the sort of thing that is taken into account in actuarial assumptions. But the actuary felt that, because this was obviously something that has been ongoing in the Public Service—there has always been a certain number of redundancies—he should factor that in to some extent just to recognise the fact that there are higher costs when redundancies occur.

**Senator CONROY**—This is a spectacularly large revaluation—you would have to admit.

**Mr Painton**—It has to be looked at in the context of the overall size of the unfunded liabilities. The numbers in these sorts of actuary reviews can move a lot, simply because you are not just asking: where are we at the moment? You are trying to say what is going to happen for thousands of payments being made out to thousands of people over 40 years. That is why these numbers can be quite sensitive to changes in assumptions; you are not looking at something that is simply static.

**Senator CONROY**—Who conducted the review? Was it Towers Perrin?

**Mr Painton**—It was Mercer; they are the contracted actuaries that we used for this exercise.

**Senator CONROY**—The 1999 report was prepared by Towers Perrin, though?

**Mr Painton**—That is right.

**Senator CONROY**—And the 1996 report was the government actuary?

**Mr Painton**—That is correct.

**Senator CONROY**—Was the review subject to a competitive tender?

**Mr Painton**—We have got a panel of actuaries that we use, and there was a tender process undertaken—I think it was a restricted tender process, acting on the advice of an actuary we had assisting us in the process. This panel was chosen under Mercer.

**Senator CONROY**—Is the government actuary on that restricted panel? Did they tender?

**Mr Painton**—They are on the panel but they did not win the tender to—

**Senator CONROY**—But they did tender?

**Mr Painton**—They did tender but they did not win the tender to do the long-term cost report. But they are on the panel to do other tasks as required.

**Senator CONROY**—On what basis was the contract awarded?

**Mr Painton**—In terms of the criteria?

**Senator CONROY**—Yes.

**Mr Painton**—I do not have those but, essentially, we received advice from a contract specialist about weighing value for money in terms of price, the quality of the actuary and the number of actuaries they had who had previous experience in working on defined benefits schemes. We balanced up those considerations to try to estimate the best value for money.

**Senator CONROY**—When was the review completed?

**Mr Painton**—The actuarial review I think was signed off in December—or it was certainly close to completion by December and it was signed off either in late December or early January.

**Senator CONROY**—What data was used in the review?

**Mr Painton**—Effectively, the actuary, in doing the long-term cost report, obtains the relevant CSS and PSS data from Comsuper, who hold all the data about existing contributors, preserved members and—

**Senator CONROY**—So did they use 2002 data or did they have to use the previous data?

**Mr Painton**—Data from 30 June 2002 was the most recent available data at that time.

**Senator CONROY**—When did you receive the review? You said it was completed in about December or January. When did you receive it—was it about then?

**Mr Painton**—About then. We may have seen earlier drafts, but about then we saw a finalised version.

**Senator CONROY**—Has the review been tabled?

**Ms Seeber**—The report is due to be tabled before 30 June 2003.

**Senator CONROY**—So it is due very shortly.

**Ms Seeber**—Yes.

**Senator CONROY**—In the next four or five weeks.

**Mr Painton**—That is our expectation.

**Senator CONROY**—Why wasn't it included in the additional estimates, if you got it in December?

**Ms Seeber**—Additional estimates are usually around October-November.

**Senator CONROY**—We do a round in February as well, so what about the supplementary estimates then?

**Ms Seeber**—The actual results have been included in the budget estimates, and that was the earliest round of estimates at which the results of the long-term cost report could be included.

**Senator CONROY**—The previous reviews have been tabled, haven't they?

**Ms Seeber**—My understanding is that that has happened.

**Senator CONROY**—Will the latest review go up on your web site when it is tabled?

**Ms Seeber**—I think we will be doing that.

**Senator CONROY**—The last one was, I understand. Is it possible for the committee to have a copy of that review, or are you locked into a government tabling situation?

**Ms Seeber**—Normally we make it public when it is tabled.

**Senator CONROY**—Are you in charge of the tabling date or is the minister?

**Ms Seeber**—It is the minister's office which will decide.



**Senator CONROY**—Minister, when is the actuarial review going to be tabled? I think they have indicated it has to be by 30 June.

**Ms Seeber**—We expect it to be before 30 June. It will probably be the last week of sittings.

**Senator CONROY**—So that is the most likely date?

**Senator Minchin**—It sounds likely to me.

**Senator CONROY**—That would be the Friday of the last week of sittings, when we are leaving town again. We have chatted about your addiction to Fridays, Senator Minchin.

**Senator Minchin**—I do not think we have anything to hide here.

**Senator CONROY**—Nothing to hide!

**Senator Minchin**—We had better make sure it is on the Thursday.

**Senator CONROY**—It will be at about 4 o'clock, just as we are all rushing to the plane!

**Ms Seeber**—Senator, the budget estimates include the results of the review, so the main results are already in the public domain.

**Senator CONROY**—I do want to visit the assumptions. I know Mr Painton spoke of them briefly. Chapter 6 of the 1999 report sets out the assumptions used to calculate the unfunded superannuation liability, so I would like to review any changes to those assumptions. I know you did mention them briefly; I just want to match them. As I understand it from page 16, there are two types of assumptions: general assumptions and experience assumptions. I would like to go through each of the four general assumptions. Can you please indicate if there has been any change to each assumption, why there has been a change and what the change has been?

**Mr Painton**—Sorry, what are you referring to?

**Senator CONROY**—I am under 'General assumptions'. There are four of them. CPI increases in 1996 were four per cent; in 1999, 3.5 per cent. Could you tell me what the general assumption is in 2002.

**Mr Painton**—My recollection of these assumptions is that the CPI assumption that was used in the last long-term cost report—that is, in the 1999 report—assumed that CPI growth was 3.5 per cent. Then when you look at the other items they are actually a real margin above that CPI. You decide your CPI and then you say, 'Investment returns are actually 3.5 per cent CPI plus 3.5 per cent real, which takes you up to seven per cent. With general salary increases, it is the 3.5 per cent plus 1.5 per cent real, which takes you up to five per cent. GDP increases do not really feed into the actual unfunded liability as such, but it is a similar thing. Looking at the new long-term cost report, the actuary decided that 3.5 per cent for CPI was probably on the high side and therefore the new report is based on 2.5 per cent CPI, which is broadly consistent with general targets for CPI growth—

**Senator CONROY**—For the Reserve Bank?

**Mr Painton**—Yes.

**Senator CONROY**—That is probably the mid point, as they say, of Reserve Bank forecasts in the medium term.

**Mr Painton**—Yes. So I think that was seen as reasonable.

**Senator CONROY**—What is the impact of that in terms of expenses?

**Mr Painton**—By way of explanation, the actuary has kept the other things real. He has kept the investment return as 3.5 per cent real. So the investment return, instead of being 3.5 plus 3.5 per cent equals seven, is now 2.5 per cent CPI plus 3.5 per cent real, which goes to six. And the salary growth goes to 2.5 per cent plus 1.5 per cent real. So the real thing here is that, in terms of general assumptions, at least for those three everything has moved down by one per cent. As I was trying to explain earlier, if you keep the real gaps the same it does not actually have any effect on the unfunded liability.

**Senator CONROY**—You said earlier GDP increases—

**Mr Painton**—On GDP increases, there has been a slightly different assumption used. It is slightly lower. But I should point out that does not actually feed into the unfunded liability. That is only used in other calculations in the long-term cost report when they try to say how the unfunded liability is going to move as a percentage of GDP.

**Senator CONROY**—What is the GDP increase figure?

**Mr Painton**—I think the figure that has been used over the long term is about 2.1 per cent. That is based on certain very long-term assumptions that were used in the Intergenerational Report. It has no reflection on what is happening now; it is just saying if you made various—

**Senator CONROY**—I promise I will not try and verbal you to say the government actuary has announced the economy is going backwards. So none of these factors accounted for the upward revision in expenses or liabilities?

**Mr Painton**—No.

**Senator CONROY**—I would like to talk about the experience assumptions there. Could you explain what an experience assumption is?

**Mr Painton**—You have your economic assumptions when you are saying what is going to happen to the economy as a whole. They are not really tied to the scheme. You just think, ‘Well, what’s CPI going to be?’ The CPI is not dependent on what is happening in the CSS and PSS schemes, obviously; it is some general factor from outside which impinges on the schemes. But experience assumptions are things which the actuary uses in trying to forecast what is going to happen to individual scheme members, effectively based on what has happened to them in the past or at least on what actuarial information there is. An example I might have mentioned previously is mortality: you try to estimate how long pensioners are likely to live. The actuaries have their own mortality tables which they use for assuming that.

**Senator CONROY**—As an economist could I describe them as the behavioural assumptions? Is that too simplistic for an actuary? Could I get away with that just to save you going any further? I am just trying to use shorthand there, but if you feel you need to keep going then keep going.

**Mr Painton**—In broad terms they are like that. It is behaviour of individuals, but in the context of the scheme I suppose you could say it is about what are they going to do in terms of scheme membership.

**Senator CONROY**—As I did with the last table, I want to go through the assumptions, whether there has been a change and what the impact would be on expenses. The first one is membership growth. In 1996 it was one per cent; in 1999, zero per cent. You cannot get in anymore can you, so I presume that is still a zero.

**Ms Seeber**—Senator, could you point to the page you are looking at—

**Senator CONROY**—I am just working off a table I have created in my notes rather than an individual page. There is a string of experience assumptions. I think Mr Painton made reference to them. The first one I have listed is membership growth, which in 1996 was one per cent. In 1999 it was zero per cent. I presume it will be zero per cent again because the scheme is closed, isn't it?

**Mr Painton**—The CSS scheme is closed. The PSS scheme is still open. My understanding is that effectively the actuaries assume that total membership of the two schemes will remain constant over time.

**Senator CONROY**—So zero.

**Mr Painton**—For totals.

**Senator CONROY**—So there is no impact on expenses then from that assumption because it has stayed the same.

**Mr Painton**—Yes.

**Senator CONROY**—I have a couple of others here. Taxation?

**Mr Painton**—I don't think there has been any changes in assumption that affect the scheme.

**Senator CONROY**—The contributions tax?

**Mr Painton**—No, I don't think that affects—

**Senator CONROY**—Labor is trying to deliver one.

**Mr Painton**—I think the same allowances have been made.

**Senator CONROY**—And other tax?

**Mr Painton**—I don't think there has been any change.

**Senator CONROY**—They are all constant, in other words.

**Mr Painton**—My understanding is that they are constant.

**Senator CONROY**—So there is no impact on expenses from any of those.

**Mr Painton**—That is my understanding.

**Senator CONROY**—Super guarantee?

**Mr Painton**—No change. That is my understanding.

**Senator CONROY**—So no impact.

**Mr Painton**—No.

**Senator CONROY**—Promotional salary increases?

**Mr Painton**—I understand the actuaries use the same assumptions as previously.

**Senator CONROY**—Which is the same as 1996, so nothing again.

**Mr Painton**—No.

**Senator CONROY**—Invalidity?

**Mr Painton**—I think he has assumed a lower than previously expected rate of invalidity.

**Senator CONROY**—What impact would that have?

**Mr Painton**—My understanding is that that would reduce the costs of the scheme.

**Senator CONROY**—Mortality? We talked about people living longer. That is a really strange behavioural assumption.

**Mr Painton**—Yes. That certainly increases the cost to the scheme.

**Senator CONROY**—Did he make a substantial change in that?

**Mr Painton**—My understanding is that it was quite substantial.

**Senator CONROY**—Is he bullish on people living longer?

**Mr Painton**—I think it was more a case of, rather his personal view, just updating for how changes have been made to the actuarial tables.

**Senator CONROY**—So there has been a general calculation by actuaries that people are going to live longer and he was just plugging the new figure in.

**Mr Painton**—That is my understanding. My understanding is that of itself increased the unfunded liability by about \$1.7 billion.

**Senator CONROY**—Retirement?

**Mr Painton**—In general, that members are retiring at later ages, I think, is the assumption that is made.

**Senator CONROY**—So that would increase or decrease the cost? Wouldn't it decrease the cost, because they don't claim it as quickly?

**Mr Painton**—I don't actually have all of these very detailed ones in front of me.

**Senator CONROY**—But, intuitively, if they are waiting longer to claim the pension—

**Mr Painton**—Intuitively you would think it would reduce it, although at that point they get a higher pension than they otherwise would have got. So there would be a couple of factors feeding into that, I think.

**Senator CONROY**—Two different influences in different directions. Could you take a punt on what the net impact would be?

**Mr Painton**—I don't have that on me. My recollection is that it was not necessarily a large impact.

**Senator CONROY**—Resignation?

**Mr Painton**—I think the main factor here is the age 54 resignations.

**Senator CONROY**—The 54-11.

**Mr Painton**—I think that those changes to assumptions, I understand, increase the unfunded liability by about \$600 million.

**Senator CONROY**—Mortality of pensioners. Are pensioners living longer?

**Mr Painton**—I made reference to the \$1.7 billion as being the—

**Senator CONROY**—That was mortality of contributors before, for \$1.7 billion. This is mortality of pensioners, people who are actually getting something.

**Mr Painton**—I think mortality of pensioners was the \$1.7 billion. I don't have the details for the mortality of members.

**Ms Seeber**—Sorry, Senator.

**Senator CONROY**—Could you just confirm that mortality of pensioners went up \$1.7 billion and we are just trying to work out what the mortality of contributors was?

**Mr Painton**—I might just revise that again.

**Senator CONROY**—Revise which one—the mortality of pensioners?

**Mr Painton**—Yes. My understanding is that, with regard to the mortality of pensioners, of that \$1.7 billion, the mortality effect for pensioners was about \$700 million but the mortality for contributors was about \$700 million—

**Senator CONROY**—That only comes to \$1.4 billion not \$1.7 billion.

**Mr Painton**—And the remainder relates to the mortality for deferred members.

**Senator CONROY**—Mortality for deferred members? You might have me there.

**Ms Seeber**—They are members who have left the scheme and who have a preserved benefit and they claim it later when they meet the eligibility rules.

**Senator CONROY**—So that is mortality of?

**Ms Seeber**—It is preserved benefit members.

**Senator CONROY**—Could I call that mortality of deferred just in shorthand?

**Ms Seeber**—Yes.

**Senator CONROY**—And that is \$400 million?

**Mr Painton**—For deferred I think it is about—

**Senator CONROY**—So mortality of contributors is \$700 million; mortality of pensioners is \$700 million; mortality of deferred is \$400 million.

**Mr Painton**—I think it was about \$200 million. I think there is a bit of rounding involved in going to the \$1.7 billion.

**Senator CONROY**—So the \$700 million and \$700 million is \$1,400 million. That leaves us with about \$300 million.

**Mr Painton**—Yes. To be precise, the figures are \$0.72 billion for the contributors; \$0.23 billion for the deferred members and I believe \$0.74 billion for the pensioners which I think gets to the order of \$1.7 billion.

**Senator CONROY**—Great. I am terrified to go any further on that one. What about future mortality improvements? You will have to explain that one to me. Does it just mean that people are living longer?

**Mr Painton**—The mortality we are talking about is people living longer or it is assumed that people will live longer than has previously been assumed.

**Senator CONROY**—So would that heading cover all the things we were just talking about or is there a separate thing called future mortality improvements?

**Mr Painton**—No, all these are future things because these are all the assumptions they are applying over the next 40 years.

**Senator CONROY**—So future mortality improvements is a heading for those other things?

**Mr Painton**—It would cover those items.

**Senator CONROY**—What about retention of benefits and the percentage not taking lump sums? Did they make any assumptions that changed the impact on expenses?

**Mr Painton**—I think there have been some changes to the preservation rules which mean they are assuming that people do retain benefits more than previously.

**Ms Seeber**—The general preservation rules that apply to superannuation schemes generally require certain benefits to be preserved for members who join after 1 July 1999. Because of those rules, there are additional employer financed benefits that have to be—

**Senator CONROY**—So what is the impact on expenses? Is it a small increase?

**Mr Painton**—I think it is a small decrease. I think that is just the way some of the scheme rules interact.

**Senator CONROY**—What about pension rather than lump sum?

**Mr Painton**—Taking a pension rather than a lump sum?

**Senator CONROY**—In 1996 they assumed 30 per cent; in 1999 it was 40 per cent.

**Mr Painton**—I think there is an assumption that there would be an increased take-up of pensions. That is my understanding. Yes, an increased take-up of pensions is my understanding of how they have changed the assumptions.

**Senator CONROY**—So what would be the impact on expenses? Wouldn't it be a saving because intuitively pensions—

**Ms Seeber**—Pension benefits generally are a more—

**Senator CONROY**—Modest in their impact?

**Ms Seeber**—costly benefit because—

**Mr Painton**—My understanding is that it has a cost to the scheme or increases the unfunded liability for a higher proportion selecting pensions.

**Senator CONROY**—Any rough idea of the amount?

**Mr Painton**—My understanding is that it is of the order of \$300 million.

**Senator CONROY**—What about PSS member contributions? Any change in the assumption?

**Ms Seeber**—The assumption has been retained for that from the previous—

**Senator CONROY**—So no change in expense?

**Ms Seeber**—No change, no.

**Mr Painton**—My understanding is that that has remained the same.

**Senator CONROY**—What about the age of new entrants?

**Mr Painton**—I don't think we have enough information. My understanding is that it has not made a significant change or it has not been identified.

**Senator CONROY**—What about gender distribution?

**Mr Painton**—I do not think that has been identified as something where there has been any significant change.

**Senator CONROY**—Retrenchments?

**Mr Painton**—Retrenchments is—

**Senator CONROY**—I know you mentioned them earlier.

**Mr Painton**—This is one of the main items. My understanding is that bringing in this assumption has increased the unfunded liability by about \$2 billion.

**Senator CONROY**—So more retrenchments are going to take place?

**Mr Painton**—No. Previously—

**Senator CONROY**—A change in the rate when I say 'more'.

**Mr Painton**—My understanding is that in the past the actuaries have generally assumed there will be no retrenchments, simply because they say that it's a bit hard to tell when they're going to happen or what's going to happen. But, because of the particular nature of the scheme and the increasing costs that occur, on this occasion the actuary thought it was appropriate to factor it in, not because they are increasing, because they have actually gone down.

**Senator CONROY**—That is what confuses me. That is a big call. I am not trying to have a go at the government; they have pared back a fair bit.

**Dr Watt**—What they have done is for the first time assumed there will be some retrenchments, whereas previously they assumed there would be none. Now they are assuming some. That is based, as I understand it, on historic levels of voluntary redundancies. These are not retrenchments per se, they are voluntary redundancies, as I understand it.

**Senator CONROY**—Is that the definition? 'Voluntary redundancies' is different. That is not as big a call.

**Dr Watt**—No.

**Senator CONROY**—'Retrenchments' is a big call.

**Dr Watt**—I think that's the correct term, isn't it?

**Ms Seeber**—It is becoming more common practice to include retrenchments for defined benefit schemes. There aren't—

**Senator CONROY**—We're a bit different, though; this is the Commonwealth Public Service. We don't wander around with quite as much gay abandon as—

**Dr Watt**—Can I get the term right? They are voluntary redundancies, Senator, they are not retrenchments.

**Ms Seeber**—I think the retrenchments generally would cover—

**Dr Watt**—The scheme may well treat them identically—

**Ms Seeber**—Yes.

**Dr Watt**—but they are voluntary redundancies.

**Ms Seeber**—Yes. That is my understanding.

**Senator SHERRY**—Are you saying that your actuarial advice is to treat the Commonwealth public sector defined benefits in the same way as private sector defined benefits?

**Senator CONROY**—They have switched. That's actually what has happened. They have made a number of assumptions similar to other private sector—

**Senator SHERRY**—I can understand why you would make that assumption given, say, the Ansett problem, but we're not going to be faced with that in the public sector.

**Dr Watt**—No.

**Ms Seeber**—The issue, too, Senator, is that it is actually identifying retrenchments as a specific form of benefit exit. It actually is more costly—

**Senator CONROY**—Dr Watt keeps trying to get you to call them voluntary redundancies. You see quite determined to refer to them as retrenchments.

**Ms Seeber**—That is the way the actuaries refer to them.

**Dr Watt**—It is not our scheme, Senator. They are not our employment practices.

**Senator CONROY**—The point that Senator Sherry made is right. We are talking about different sets of employment practices. If an external actuary is trying to apply a commercial definition to the Commonwealth Public Service—

**Ms Seeber**—The actuary thought that, if he did not include that experience in calculating the scheme costs, they may be underestimated.

**Senator CONROY**—Underfunded.

**Ms Seeber**—Yes, and that is what we were concerned about—making sure we had the proper estimate in the budget.

**Dr Watt**—I think both points are, in a sense, right. As I understand it, the actuaries were concerned to see some reflection of voluntary redundancies in the scheme, consistent with the way private practices are treated. But to look for the actuarial basis for the inclusion, they went back and looked at the Commonwealth history, rather than private sector practice.



**Senator CONROY**—Spouse assumptions—percentage married at death? While the officers are looking at that, can I indicate that the assumption that the actuary has made in terms of retirement age has gone up a bit; the assumption that the actuary has made is that they are retiring later.

**Senator SHERRY**—This is the ‘work till you drop’ Public Service approach.

**Senator CONROY**—That is right.

**Mr Painton**—I think there is a distinction between those who resign earlier and those who do not resign earlier and stay on; I understand they are staying on a bit later. So there is a bit of a distinction between resigning and retiring.

**Ms Seeber**—And because it is both schemes.

**Senator CONROY**—I did say ‘retirement’. They are retiring. So the actuarial assumption is that they are retiring later—living longer, retiring later.

**Ms Seeber**—We do not have a specific figure on the effect of that, Senator. Basically the actuary makes an assumption, and the assumption they have made is in line with the general population about the age of the male spouse compared to that of the female spouse.

**Mr Painton**—As far as we are aware it would not have had a significant effect on the revaluation.

**Senator SHERRY**—Have you made any assumptions in respect of gay marriages, gay relationships, and the impact on the public sector in these figures you have been discussing?

**Mr Painton**—I am not aware of any such assumptions having been made.

**Senator SHERRY**—I am aware that there have been some costings done by either Finance or Treasury on this issue and its impact on the public sector, at the request of the Australian Democrats some time ago. I am surprised you have not got some figures on that issue.

**Dr Watt**—We are not aware of that, Senator.

**Senator SHERRY**—It is an issue that has been consistently on the Democrat policy agenda. I am looking for some support here from Senator Murray.

**Senator MURRAY**—I agree with you; whatever you say.

**Senator SHERRY**—You do not have any figures on that? There were some produced a couple of years ago.

**Mr Painton**—It is not something that the actuaries have identified in the report as being an issue for this revaluation.

**Senator CONROY**—So the big ticket items that have led to the change in the expenses are as follows: the voluntary retrenchment issue, about \$2 billion?

**Mr Painton**—Yes.

**Senator CONROY**—The change in mortality—different categories grouped together—at \$1.7 billion?

**Mr Painton**—Yes.

**Senator CONROY**—\$600 million on resignations?

**Mr Painton**—Yes.

**Senator CONROY**—\$300 million on pension rather than on lump sum?

**Mr Painton**—Yes.

**Senator CONROY**—They seem to be the big ticket items, which come to \$4.6 billion. I appreciate there are some minor changes in rounding because you were rounding and did not have exact figures, and there may be \$20 million here and \$30 million there.

**Mr Painton**—Those are the major items. It is a movement from the 1999 figure, and we have already factored in quite a lot of movement in just our annual estimates. But those are the main reasons why it has been separately identified as we think of explaining why our adjusted estimate up to 30 June 2002 did not line up with the actuary's. There are a large number of other factors that feed in as well, but we believe those to be among the major items.

**Senator CONROY**—I want to return to page 25 of the PBS. Can I confirm that the figure of \$9.3 billion is an appropriation for an estimated expense for 2002-03 and that it has increased by \$5.1 billion from the original estimate of \$4.2 billion for 2002-03 shown in last year's budget papers?

**Mr Painton**—That is the variation between those PBS figures based on the accounting standards, yes.

**Senator CONROY**—Has DOFA sought or received any legal advice this year in relation to appropriations for superannuation expenses?

**Mr Painton**—No, not to my knowledge.

**Dr Watt**—Excuse us, Senator. We would like to spend a moment on that question.

**Senator CONROY**—Yes, certainly.

**Dr Watt**—Mr Chairman, while Senator Conroy is away from the table, we have some further information for Senator Sherry on his whimsical question earlier on.

**Senator SHERRY**—Whimsical?

**Dr Watt**—It is in relation to any work that might have been done in relation to same sex couples.

**Senator SHERRY**—I can recall some figures being provided a couple of years ago.

**Dr Watt**—There were some figures done by the Institute of Actuaries, if my recollection of a brief discussion is correct. We will have that information for you in a moment.

**Senator SHERRY**—The context was that Senator Kemp had to respond to a Democrat request for the costing of same sex couple application to the public sector schemes, but the origin of the figures might have been the Institute of Actuaries.

**Mr Hutson**—I think the work you might be referring to was work that was undertaken as part of a Senate committee report on superannuation entitlements under the same sex couples bill 2000. At that stage the report of the committee included an estimate from the Institute of Actuaries of Australia that the total cost of extending death benefits to same sex couples in the

Commonwealth schemes would be \$300 million to \$400 million in present value terms. But we have not done any verification of those figures.

**Senator SHERRY**—I will double-check this, because I am sure Senator Kemp provided the committee or the Democrats with some figures on that.

**Dr Watt**—We are happy to check that.

**Senator SHERRY**—Just give us an update.

**Dr Watt**—We are not aware of anything other than this but we will check that, and that picks up my earlier comments on the subject.

**Senator CONROY**—I am wondering if any more information has come to light on the issues we were discussing earlier, Dr Watt. I am about to finish and shoot through and I will leave Senator Sherry for a while on the other things. I am wondering if you have any further updates.

**Dr Watt**—We do not have any further updates at the moment. We are still checking numbers.

**Senator CONROY**—I will summarise tonight's developments—revelations: DOFA have breached accounting standards.

**Dr Watt**—We are checking that, Senator.

**Senator CONROY**—I think we have already agreed that you have breached the accounting standards, misled the Senate—

**Senator Minchin**—That has not been agreed to. It is an assertion on your part. It is not agreed.

**Senator CONROY**—overstated government assets by at least \$3 billion—

**Dr Watt**—Again, we are looking at those numbers.

**CHAIR**—This is not a question.; this is rhetoric.

**Senator CONROY**—and distorted the budget papers. Will you provide a full written explanation tomorrow?

**Dr Watt**—We will certainly be providing any updated numbers that are necessary.

**Senator CONROY**—Will you reissue the budget papers where the information is incorrect in budget statement No. 1?

**Dr Watt**—We will correct the record, Senator, if we need to.

**Senator CONROY**—You will reissue the papers?

**Dr Watt**—I did not say that. I said we would correct the record—

**Senator CONROY**—Thank you.

**Dr Watt**—if we need to.

**Senator CONROY**— I do not see you sitting here saying you are not going to.

**Senator SHERRY**—It may be Mr Painton who can assist in this area. In budget paper No. 1 on page 11-5 it states that the start date for government proposals to offer so-called choice

to members of the CSS and PSS and to close the CSS have been revised to commence on 1 July 2004. They have been moved back a year. This was previously advised in the finance and admin additional estimates statements. What is the revised cost of these measures in underlying cash terms for 2004-5, 2005-06 and 2006-07?

**Mr Painton**—Before I give you these costs I might point out that they have gone up compared to the previous costings that you would have been given, and that reflects the fact that we have had an actuarial review which has increased the estimated costs of the CSS and PSS and therefore we have revised the estimated cost of choice in closing the PSS on the assumption that the benefits that would be provided to people paid to external schemes will now be at the higher rate.

**Senator SHERRY**—We thought that would be the case.

**Mr Painton**—The current estimates, based on an assumed 1 July 2004 start date, show an impact on underlying cash of the policy that would be \$260 million in 2004-05, \$310 million in 2005-06 and \$370 million in 2006-07.

**Senator SHERRY**—Do you have figures for further out than that?

**Mr Painton**—No, that is as far as the budget papers go.

**Senator SHERRY**—Regarding that cost, do you have a figure for each year that relates to the so-called choice for current PSS and CSS members and how much relates to the closure of the PSS?

**Mr Painton**—The estimated cost for the choice component is \$230 million each year of that component, and the remaining amount is for the new employees who would not go into the PSS but who would go into external schemes.

**Senator SHERRY**—You mean, may go into external schemes.

**Mr Painton**—Yes, may go into external schemes should the policy occur.

**Senator SHERRY**—Thank you for that information. We have already dealt with the same-sex couple issue. That is all I have in the general area on superannuation. You cannot provide me with any information on the judges or the Governor-General costs?

**Mr Painton**—No, this portfolio is not responsible for administering those schemes. I do not believe we have any information.

**Senator SHERRY**—I just thought you were across this area very well and you might have been aware of the information.

**Mr Painton**—No, I am sorry, Senator.

**Senator SHERRY**—I have a few questions on Comsuper. We may as well deal with CSS and PSS at the same time. With respect to the number of members of the CSS, PSS, defence forces and MSBS liable for the superannuation surcharge in the last three financial years and the current financial year, if available, do you have any data on that?

**Mr Bator**—I seem to have dollar figures rather than numbers here. I will keep looking.

**Senator SHERRY**—That was going to be my next question—the dollar figures. What information can you provide, Mr Bator?

**Mr Bator**—In numbers, \$212 million has been processed for the year to March.

**Senator SHERRY**—That is for this year?

**Mr Bator**—In terms of assessments, yes.

**Senator SHERRY**—Do you have figures for the previous three financial years?

**Mr Bator**—No.

**Senator SHERRY**—Take that on notice. Is that for all four schemes?

**Mr Bator**—Yes, that is for all the schemes.

**Senator SHERRY**—You do not have a breakdown available?

**Mr Bator**—No, Senator.

**Senator SHERRY**—You can take that on notice. You would not have this because you don't have it by the total number of members but you can take it on notice: how many members in each scheme paid all of their surcharge liabilities on an ongoing basis or paid part of their liabilities on an ongoing basis or allowed their debts to accrue? I assume you don't have that?

**Mr Bator**—We will provide that.

**Senator SHERRY**—What was the value of surcharge debt liabilities paid on an ongoing basis in each scheme in those years? Again, can you take that on notice?

**Mr Bator**—Yes.

**Senator SHERRY**—With respect to ComSuper, has there been any preparatory work on the changes that will be necessary in the event of a so-called choice of fund being implemented?

**Mr Bator**—No, there has not.

**Senator SHERRY**—None at all?

**Mr Bator**—No work. We will continue to have current membership—current CSS/PSS, as we understand it, current pensioners—so there will be an ongoing need for us to maintain a business for those.

**Senator SHERRY**—The major innovation that was announced at the last election, children's superannuation accounts: is ComSuper offering children's superannuation accounts?

**Mr Bator**—No, we are not.

**Senator SHERRY**—You are not?

**Mr Bator**—Not at this stage, no.

**Senator SHERRY**—Why are they not being offered?

**Mr Bator**—That would be a decision for the board in terms of the way that we would progress that.

**Senator SHERRY**—Can you throw any light on that, Mr Gibbs? It is a government initiative yet the government are not offering it in their own schemes.

**Mr Gibbs**—I cannot throw any light on that. I will take it on notice and respond.

**Senator SHERRY**—I hope I haven't got you into any trouble with your minister, Senator Coonan.

**Mr Bator**—There would be no reason that we would not, it is just that we have not pursued it and it has not been an issue that has come up. Nor have we been asked, yet, to do that.

**Senator SHERRY**—I am not surprised that you have not been knocked over in the rush. I just find it a bit odd that it is a government initiative but it is not available in the government Public Service superannuation funds.

**Mr Bator**—We have not offered it yet, but that does not mean it is not available.

**Senator SHERRY**—Are you doing any preparatory work on it?

**Mr Bator**—No, it would be just another account. It would not be—

**Senator SHERRY**—I understand that, but you are offering it. And then there is the take-up rate, which, you are probably aware, is very, very low.

**Mr Bator**—Yes.

**Senator SHERRY**—The issue of splitting contributions: has there been any preparatory work done on the changes that would be necessary to allow that?

**Mr Bator**—Is this for family law matters or just for splitting generally?

**Senator SHERRY**—Splitting generally.

**Mr Bator**—We have not done any preparatory work on that but, again, that does not mean that we would not offer it or that we could not do it.

**Senator SHERRY**—But there has, so far, been no request to do any preparatory work to offer it?

**Mr Bator**—Not to us, no.

**Senator SHERRY**—That also surprises me, I have to say. Turning now to the rate of return: can you give us an update, Mr Gibbs, on what the rate of return is showing at the present time?

**Mr Gibbs**—Yes, at the financial year to date, end of April, the actual return for CSS was plus 0.1 per cent; the actual return for the PSS was minus 0.4 per cent. Our estimate—and it is only an estimate based on movements in indexes, not on actual manager performance—to close of business last Monday, 26 May, would have both funds in positive: CSS at about plus 0.7 and PSS at about plus 0.2. But that is just an estimate.

**Senator SHERRY**—What was the PSS figure again?

**Mr Gibbs**—Plus 0.2 of one per cent and CSS at plus 0.7 of one per cent. So, the month of May, so far, has been slightly positive.

**Senator SHERRY**—I do not want to highlight this unfairly in the context of returns more generally, but do you have any comparative figures with other sectors at this stage?

**Mr Gibbs**—We have two comparative figures. The only survey we are aware of that is released on a monthly basis is an InTech survey of fund manager superannuation funds. So these are not trustee based superannuation funds; these are fund manager superannuation funds. PSS and CSS is not part of that survey for that reason but, if we were, the two funds would rank Nos 1 and 2 out of some 30-odd. That is to the end of April. There is an InTech survey, released quarterly, of major superannuation funds—and there are some 17. It includes large public sector and corporate funds, mainly. At the end of March financial year to date, CSS is first out of 17 and PSS is third or fourth out of 17.

**Senator SHERRY**—Would it be fair to say that, at least in part, the better result compared to other funds surveyed is because of your economies of scale, both in administration and in ability to negotiate a comparatively good deal on investment costs?

**Mr Gibbs**—I will answer that question this way. The schemes are low-cost schemes and we do benefit from economies of scale in terms of fees paid in particular to fund managers because we have scale and the mandates we give to those managers are large, therefore we can negotiate best possible fee arrangements. However, I would not like to claim that that is the reason for the good comparative performance this financial year. The good financial performance this financial year, in a comparative sense when we are looking at other funds, has been a combination of having all of our overseas investments fully hedged—the dollar being fully hedged so we have not suffered from the negative impact of a rising Australian dollar—and also having a slightly overweight position to property, which has been positive this year, and having almost every one of our managers outperforming the index. There might be one manager of both international and Australian equities that has not outperformed the index. So there has been good comparative manager performance, a fully hedged Australian dollar and a slightly overweight position to property, and there might be two or three other minor impacts as well.

**Senator SHERRY**—There has been considerable public debate about the remuneration of some sectors of the fund management industry. Is this an issue that the board has given any attention to when placing moneys with particular fund management companies?

**Mr Gibbs**—Not specifically. The board take into account a large number of factors when they decide to appoint a manager, to engage a manager. They go to issues such as the team, the people and the style, because we want to end up with a style neutral portfolio. So we might have some managers that are growth managers, some that are value managers, others that are quant managers, some that are small cap, some that are large cap. We put them together in such a way that we end up with a style neutral. We also look at performance—not that past performance is necessarily a guarantee of future performance, as you know—and we look at methodologies and so on. Obviously we also look at fees, but we do not specifically look at remuneration levels within the fund manager organisation.

**Senator SHERRY**—Last year you declared a zero rate of return because you are obliged to by law, but you actually had a negative return. You have to carry the negative forward. Let us assume your projection through to the end of the financial year is correct and you go to plus 0.7 and plus 0.2 with respect to the CSS and PSS. How do you propose to treat what is a pretty fine positive return in the context of the carryover of the negative return from last year?

**Mr Gibbs**—The board's current policy on this issue is that it will continue to declare zero crediting rates until the negative reserve is replenished, if I can use that term. That is a policy of the board. It is a decision of the board. It can change, of course, at any time, but that is the current position.

**Senator SHERRY**—Can you remind me of the negative figures from last year?

**Mr Gibbs**—The negative reserve in the CSS at the end of last year was 5.6 per cent and the negative reserve in the PSS was 5.7 per cent. Those numbers are now slightly different because of the impact of people exiting the funds. In fact, because the PSS is open and is receiving contributions the negative reserve has actually improved in the financial year to date. In the CSS, because it is closed and there are exits, the negative reserve is slightly worse than it was at the end of last financial year.

**Senator SHERRY**—Given that it will be another zero-declared return, are you putting in place any special communication initiatives to explain this to the members ?

**Mr Gibbs**—We have put in place communication mechanisms in terms of our last annual report and so on, and we constantly put information on our web site. We also have an increasing number of members who, via email, are alerted to any new information going onto our web site. We ask members to give us email addresses and, when we are posting new information, they are alerted to that. We put monthly investment performance information on the web site. We have also published widely the board's current policy in terms of a zero-crediting rate until the reserve is replenished.

**Senator SHERRY**—How is the carrying of the negative return financed?

**Mr Gibbs**—It is not financed. The negative reserve simply means that the amount standing to the credit of members in the funds, if you like, exceeds the assets of the funds. But any members who leave have their full amount paid.

**Senator SHERRY**—What is the approximate date—you might be able to give it to me to the nearest day—for the notification to members of the result for this current financial year? I assume it is in July or August sometime.

**Mr Gibbs**—We get the final performance numbers at around the end of the third week of the month after the end of the financial year, or any month for that matter. Then some work has to be done with ComSuper in terms of the actual numbers and checking of the actual valuations and so on. The board is due to meet I think on 12 or 13 August. That is when the board would normally determine a final crediting rate for a year.

**Senator SHERRY**—How long after that before members get their notification?

**Mr Gibbs**—Members would know what the crediting rate was as a number, as a percentage, almost immediately because we would publish that on the web site. But the annual statements will be available for those who have chosen to receive them electronically from about 15 September, and that is when we would commence the process of mailing the statement and the annual report for those members who have elected not to receive it electronically. That process usually takes around two weeks. The board's objective, and the service standard we have with ComSuper, is that all of that would be completed by the end of September.



**Senator SHERRY**—What is the approximate number of members at the moment?

**Mr Bator**—In terms of contributors, we stand at about 172,000; preservers, 97,000; and pensioners, 122,000.

**Senator SHERRY**—Thanks for that. That is all I have.

**CHAIR**—Tomorrow, Dr Watt and Minister, we are having an hour with Senator Ray and Senator Faulkner on general questions to the department. At about 10 o'clock or so we will move on to MAPS and Senator Abetz's area.

**Dr Watt**—Does that mean, after we have the hour in the morning, that we will be finished with questions for all the department but MAPS?

**CHAIR**—I think so but, as Senator Forshaw pointed out before, we have not got to outcome 2. But I think time is going to get to us. Dr Watt, I do not know and I will have to confirm that tomorrow morning.

**Dr Watt**—I will see that we have the spectrum of people we need for general questions to the department here at 9 o'clock in the morning. We will have MAPS people coming at 10. If we are going back to specific outcome questions, I will need a warning because otherwise at 10 o'clock I will let the rest of the department go back to the department and do some useful work.

**CHAIR**—We should know by 10 o'clock what the situation is because at 5 o'clock we have to move back to Prime Minister and Cabinet, so we have a bit of a juggle.

**Dr Watt**—I take it we are still not required on Friday.

**CHAIR**—We will do all we can to ensure that is the case.

**Dr Watt**—I appreciate that most deeply.

**Committee adjourned at 10.55 p.m.**