



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

FINANCE AND PUBLIC ADMINISTRATION LEGISLATION  
COMMITTEE

ESTIMATES

**(Budget Estimates)**

TUESDAY, 24 MAY 2005

CANBERRA

BY AUTHORITY OF THE SENATE



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**SENATE**

**FINANCE AND PUBLIC ADMINISTRATION LEGISLATION COMMITTEE**

**Tuesday, 24 May 2005**

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

**Senators in attendance:** Senator Mason (*Chair*), Senator Murray (*Deputy Chair*), Senators Allison, Bishop, Brandis, Carr, Evans, Faulkner, Fifield, Forshaw, Hill, Sherry and Stephens

**Committee met at 9.05 am**

**PRIME MINISTER AND CABINET PORTFOLIO**

Consideration resumed from 23 May 2005

**In Attendance**

Senator Robert Hill, Minister for Defence

**Department of the Prime Minister and Cabinet**

**Executive**

Mr Andrew Metcalfe, Deputy Secretary

Ms Jenny Goddard, Deputy Secretary

Dr Louise Morauta, Deputy Secretary

**Economic policy advice and coordination**

**Output Group 1**

Mr Godwin Grech, Assistant Secretary, Industry Policy Branch

Mr Paul Tilley, First Assistant Secretary, Economic Division

**Social policy advice and coordination**

Ms Joanna Davidson, First Assistant Secretary, Social Policy Division

**International policy advice and coordination**

Mr Ian Kemish, First Assistant Secretary, International Division

Mr Frank Leverett, Assistant Secretary, Ceremonial and Hospitality

Mr Duncan Lewis, First Assistant Secretary, National Security Division

Dr Wendy Southern, Assistant Secretary, Domestic Security

Ms Margot McCarthy, Assistant Secretary, Defence and Intelligence

Ms Ruth Pearce, First Assistant Secretary, APEC 2007 Taskforce

**Support services for government operations**

Ms Barbara Belcher, First Assistant Secretary, Government Division

Mr David Macgill, Assistant Secretary, Parliamentary and Government Branch

Mr Alex Anderson, Assistant Secretary, Legal and Culture Branch

Mr Paul O'Neill, Assistant Secretary, Awards and National Symbols Branch

Mr Peter Hamburger, First Assistant Secretary, Cabinet Division

Ms Myra Croke, Assistant Secretary, Cabinet Secretariat

Ms Judy Costello, Acting First Assistant Secretary, People, Resources and Communications Division

Mr Chris Taylor, Assistant Secretary, Government Communications Unit

Dr Susan Ball, Assistant Secretary, Information Services Branch

Ms Trish Corbell, Senior Adviser, Official Establishments

Ms Fran Raymond, Assistant Secretary, Financial Management Branch

**Australian National Audit Office**

Mr Ian McPhee, Auditor-General

Mr Warren Cochrane, Acting Deputy Auditor-General

Mr Ian Goodwin, Group Executive Director, Assurance Audit

Mr Michael Watson, Group Executive Director, Assurance Audit

Mr John Meert, Group Executive Director, Performance Audit

Mr Peter White, Acting Group Executive Director, Performance Audit

Mr Alan Greenslade, Executive Director, Performance Audit

Ms Fran Holbert, Executive Director, Performance Audit

Mr John Hawley, Executive Director, Corporate Management Branch

**Australian Public Service Commission**

Ms Lynelle Briggs, Australian Public Service Commissioner

Ms Lynne Tacy, Deputy Public Service Commissioner

Mr Jeff Lamond, Merit Protection Commissioner

Mr Mike Jones, Group Manager, Corporate

Ms Patricia Turner, Aboriginal and Torres Strait Islander Employment Coordinator

Mr David Bohn, Group Manager, Policy

Ms Christine Flynn, Group Manager, Programmes

Dr Kathy MacDermott, Group Manager, Evaluation

Ms Clare Page, Group Manager, Better Practice

Mr Robert Wooding, Seconded, Management Advisory Committee

**National Water Commission**

Mr Ken Matthews, Chief Executive Officer, National Water Commission

Ms Linda Holub, General Manager, Corporate Strategy and Services Group

Ms Virginia Hart, General Manager, Programmes Group

Mr Malcolm Thompson, General Manager, Reform

**Office of National Assessments**

Mr Peter Varghese, Director-General

Mr Derryl Triffett, Assistant Director-General, Corporate Services

Ms Margaret Bourke, Senior Executive Officer

**Office of the Commonwealth Ombudsman**

Professor John McMillan, Commonwealth Ombudsman

Mr Ron Brent, Deputy Ombudsman

Ms Natalie Humphry, Contract Manager

**Office of the Inspector-General of Intelligence and Security**

Mr Ian Carnell, Inspector-General

**Office of the Official Secretary to the Governor-General**

Mr Malcolm Hazell, Official Secretary to the Governor-General

Mr Martin Studdert, Deputy Official Secretary

Ms Amanda O'Rourke, Director, Honours Secretariat

Mr Gary Bullivant, Corporate Manager

**Department of Prime Minister and Cabinet**

**CHAIR (Senator Mason)**—I call the committee to order. We are in continuation on general questions to the Department of the Prime Minister and Cabinet. Mr Metcalfe, I think this morning you were going to inform the committee about matters that you were to look into last night.

**Mr Metcalfe**—I think there were three matters on which we undertook to see if we could provide further information this morning. Firstly, the issue in relation to Ms Cornelia Rau and when the department first became aware of that issue; secondly, some issues relating to the Regional Partnerships program; and, thirdly, the appointment of Mr Hannaford to the Australian Crime Commission. Inquiries on those issues are currently underway at the department. I am hopeful that when we come to those particular program items we will be in a position to deal with those issues, but certainly we will endeavour to come back to the committee during today's hearing.

**CHAIR**—Thanks very much.

**Senator CHRIS EVANS**—I am not quite sure about the order here, so I beg your indulgence, Mr Chair.

**CHAIR**—We are on general questions, because questions come from all over the place initially, then we try to corral people. It is difficult at first.

**Senator Hill**—Do you think it is getting close to the point where we should get back to the published agenda?

**CHAIR**—We are still on general questions. Senator Evans, have you finished your general questions?

**Senator CHRIS EVANS**—I wanted to ask about some budget matters, so I guess they can come under output 1.1.

**Mr Metcalfe**—It depends on if it is internal to the department.

**Senator CHRIS EVANS**—It involves the preparation of the 2005 budget.

**Mr Metcalfe**—I suspect it comes under 1.1.

**Senator CHRIS EVANS**—That is always the danger; I am never quite sure—

**CHAIR**—Of what output it falls under?

**Senator CHRIS EVANS**—Yes, and a lot of them then come back to more general officers. I am in your hands, Mr Chair.

**CHAIR**—Senator Murray, do you have any further general questions?

**Senator MURRAY**—No. I did want to ask about the Tasmanian advertisements that appeared last week about the Tasmanian Community Forestry Agreement. That was a consequence of the Prime Minister's rapprochement with Mr Lennon of the Labor Party.

**CHAIR**—We will continue with general questions until the morning tea break, and after that we will follow the agenda strictly so that Mr Metcalfe's officers can depart if they are not required.

**Senator MURRAY**—I just want to explore, briefly, the question of the Tasmanian forestry agreement and the consequent advertising that ran last week. I saw a full page advertisement in the *Australian*, for instance, and I presume there was a fairly wide campaign. Was that a PM&C initiated and oversighted campaign or was it referred to the ministry that normally deals with forestry?

**Ms Goddard**—As you would be aware, the Tasmanian Community Forestry Agreement set aside \$2.2 million for communications. The agreement sets out that this is to be a joint communications program between the Australian and Tasmanian governments even though this element of the package is funded by the Australian government, and PM&C officials and other Commonwealth officials from relevant agencies were involved in checking the content of the initial information campaign.

**Senator MURRAY**—So it did not fall under Minister Macdonald, I think it would be; it fell under the Prime Minister's purview, did it?

**Ms Goddard**—We were involved in checking the content but the administration of the program will be undertaken by the Department of Agriculture, Fisheries and Forestry.

**Senator MURRAY**—But is the information campaign under the Department of Agriculture, Fisheries and Forestry?

**Ms Goddard**—Yes. It was part of the joint package agreed between the Commonwealth and Tasmanian governments, and Agriculture, Fisheries and Forestry will be administering that campaign, yes.

**Senator MURRAY**—Why was it necessary to have a campaign? Normally government programs and announcements of that kind would simply be carried by the media—which it was, widely. Why was it necessary to spend money there? What is the information that is being conveyed?

**Ms Goddard**—It was a decision taken by both parties to the agreement that they wanted to have a communication campaign to relay a range of factual information relating to the agreement.

**Senator MURRAY**—It is political advertising, isn't it? It is just saying: 'Look at us. Look how good we are.'

**Mr Metcalfe**—I think it is very much information that is provided to assist community understanding. Just speaking personally, not as someone who worked on the package but as a very interested individual, I thought that the community information that appeared in the newspapers over the weekend provided clear, factual information, including maps of the relevant areas, that had not been carried to that level of detail in the general media coverage.



So I think we would regard it certainly not as political advertising but as proper community information.

**Senator MURRAY**—As a member of the community, I too thought it was a great step forward in terms of forestry protection in Tasmania as a compromise outcome between two governments and between industry, the unions and the community. It struck me as a useful advance and one which is probably to be celebrated in Tasmania. But nevertheless it was widely publicised; it probably has quite strong Australian support. When I looked at that advertisement, I could see absolutely no public benefit whatsoever in the information conveyed in the advertisement. It was a ‘look at me, we’re good politicians’ advertisement, which in my view should not be paid for by the taxpayers.

**Mr Metcalfe**—Ultimately, I suppose that is a question of opinion, but our view was that it was a way of ensuring that there was clear, factual information available to the public.

**Senator MURRAY**—And it was consequent to an agreement.

**Ms Goddard**—That is right. It was part of the package agreed between the two governments.

**Senator MURRAY**—We have a difference of opinion, but thank you for telling me your views.

**Mr Metcalfe**—Clearly there have been a lot of different views as to what parts of the forest should be protected or available for logging. There was clearly extensive work done between the Commonwealth, Tasmania, industry and others to come up with the final package. Having a clear, factual record of what has been agreed, what has been preserved for the environment and what has been made available for industry is ultimately an issue that the two governments thought was a useful, clear message to provide to the people of Australia.

**Senator MURRAY**—Was the campaign tendered for by the advertising group, or was it developed in house?

**Mr Taylor**—I am not in a position to answer that, because the early stages of this were done within the area of responsibility of the Tasmanian government—the advertising agency was from Hobart; the printer et cetera were from Tasmania—so I do not have details of that.

**Senator MURRAY**—Perhaps you would just let us know in due course about the way in which the contract was let—whether it was simply a choice by the Tasmanian government, whether it went through a tender process, whether it was in house design or what.

**Ms Goddard**—We can take that on notice.

**Senator CHRIS EVANS**—I want to ask Mr Metcalfe about the budget involvement. Forgive me, Mr Metcalfe; I am not particularly familiar with the operations of the Department of the Prime Minister and Cabinet. What is your normal involvement in the preparation of the budget?

**Mr Metcalfe**—Ms Goddard is the expert on these issues.

**Ms Goddard**—The department plays a number of different roles in regard to the preparation of the budget. We basically provide the secretariat support for the Expenditure Review Committee, which undertakes many budget decisions, as you know. We provide a

range of PM&C note takers for ERC meetings. We provide advice to the Prime Minister on individual proposals coming forward to the Expenditure Review Committee from ministers. We provide secretariat services to the Ad Hoc Revenue Committee and provide advice on revenue proposals coming forward to that committee.

**Senator CHRIS EVANS**—Can you explain what is the Ad Hoc Revenue Committee? I suspect I know what it is, but—

**Ms Goddard**—It is similar to the ERC; it is just that it deals with certain revenue proposals that come forward in the budget process.

**Senator CHRIS EVANS**—So it is more about savings measures than about expenditure measures? Is that fair?

**Ms Goddard**—No. It is usually about taxation measures. Then there is usually a range of correspondence from ministers to the Prime Minister during the six months or so that the budget process stretches over, and the department briefs the Prime Minister on responses to that correspondence.

**Senator CHRIS EVANS**—You say you have note takers. Do you keep the minutes of those meetings of the ERC and the Ad Hoc Revenue Committee?

**Ms Goddard**—The note takers prepare draft decisions on each meeting. There are not detailed minutes as such kept of ERC meetings. It is the same process as for cabinet meetings. They draft a decision afterwards which is ultimately signed off by the Cabinet Secretary.

**Senator CHRIS EVANS**—So the real power remains with the PM&C note takers, then?

**Ms Goddard**—Not at all.

**Senator CHRIS EVANS**—It has always been my experience that those who write the minutes control the meetings!

**Mr Metcalfe**—That is why they have the name ‘secretary’!

**Senator BRANDIS**—That might be the case in the Australian Labor Party!

**Senator CHRIS EVANS**—It has been true of every organisation I have been in, including the Senate. You might think something happened in the Senate, and then you read the *Hansard* and you have a very different view of it. So those staff take notes and draft the decisions of those meetings. That is obviously a fairly substantial call on your resources. How many officers are involved in this from PM&C’s point of view?

**Ms Goddard**—The cabinet secretariat is very heavily involved during budget time. There would be a number of officers there—probably five or six—very intensively involved in secretariat services for the meetings. Then there are usually two note takers for each item, drawn from the relevant policy area and the fiscal area of the department.

**Senator CHRIS EVANS**—So you would send in two people from social policy if a welfare reform issue was being considered?

**Ms Goddard**—It is one person from fiscal and one person from the relevant policy division. They rotate through depending on the nature of the item.

**Senator CHRIS EVANS**—So if the ERC were discussing the welfare reform you would have someone in from social policy and someone from fiscal?

**Ms Goddard**—That is correct.

**Senator CHRIS EVANS**—So you have got a rotating group of people who are note takers?

**Ms Goddard**—That is right. The expert note takers would be the same people briefing the Prime Minister on proposals in their area of expertise.

**Senator CHRIS EVANS**—When you say ‘briefing the Prime Minister’, do PM&C formally provide advice to him on departmental proposals, or is that putting it at too high a level?

**Ms Goddard**—On ministers’ proposals, yes. Generally, in the ERC process the Finance greens play quite a role. They are usually the main documents that ministers draw on in the ERC meetings. We tend to only brief if there is a variance of view with the Finance green.

**Senator CHRIS EVANS**—In terms of this year’s budget, did things progress in that normal manner or were they affected by the election? I would have thought that there would have been a shorter time frame this year with the election late in the year.

**Ms Goddard**—There was a special ERC meeting late last year to deal with a number of election commitments that were to commence in 2004-05 and they were included in the Mid-Year Economic and Fiscal Outlook last November. So there was an extra meeting to get things moving quickly, but otherwise the 2005-06 budget process proceeded in the normal fashion.

**Senator CHRIS EVANS**—So that meeting was in November?

**Ms Goddard**—It was in November, I think.

**Senator CHRIS EVANS**—Was that to factor the election commitments into the budget planning process?

**Ms Goddard**—It was just to confirm some details of the election commitments and the estimates surrounding those so they could be included in the Mid-Year Economic and Fiscal Outlook.

**Senator CHRIS EVANS**—Was that the meeting where things like the health safety net were considered?

**Ms Goddard**—I would have to check the details of what particular proposals were considered there. It was mainly commitments that were commencing in 2004-05.

**Senator CHRIS EVANS**—Perhaps you could check whether or not that was the meeting at which the health safety net considerations were made, because I think in August the government was concerned about the increased cost of the health safety net. I am trying to follow the formal process and whether or not that was considered at the ERC meeting—effectively, what that meeting incorporated into the forward planning of the election commitments. Is that a fair description of what happens?

**Ms Goddard**—As I said, it was confirming the details of election commitments that were commencing in 2004-05 so that they could be included in the mid-year economic and fiscal update.

**Senator CHRIS EVANS**—For instance, did you have all the economic forecasting for those there or was that work that had to be commissioned?

**Ms Goddard**—Sorry, I am not sure what you mean by ‘the economic forecasting’.

**Senator CHRIS EVANS**—I presume that many of the measures announced by the government in the election campaign were known to the bureaucracy at the time of the election, and you were in caretaker mode. I am just trying to understand the process. I do not want to pick on a particular commitment, but did you then have to go away and cost the commitment or had that already been done?

**Ms Goddard**—In the main, there had been Charter of Budget Honesty costings. If there was any small variance in the costings, they would have come back to that special ERC meeting.

**Senator CHRIS EVANS**—So, as your starting point, you would use the Charter of Budget Honesty costings provided by Finance?

**Ms Goddard**—That is right. I think Finance would be in a better position to answer those detailed questions about what they did on the costings for the MYEFO.

**Senator CHRIS EVANS**—I will certainly ask them about that, but I am just trying to understand your involvement in that. So that was the first big difference—I do not want to verbal you—a major event in the budget process, that then helped set the parameters for the ongoing budget process?

**Ms Goddard**—It is not unusual. There have been special ERC meetings in previous years when there was a need to have them, so it was not unusual in that sense.

**Senator CHRIS EVANS**—I was not trying to characterise it in that way, but, post election, that was the first key event. Is that fair?

**Ms Goddard**—There was that meeting and there was the usual senior ministers review, which decides on proposals that can be brought forward in the 2005-06 budget context. They were held around the same time. I would have to check the sequence of those meetings.

**Senator CHRIS EVANS**—If you would not mind taking that on notice for me, the meeting dates would be interesting. That is a senior ministers review and that is when they have a discussion about the major parameters. Is that right?

**Ms Goddard**—Ministers have submitted their bids for the budget process and it is basically a discussion of which of those proposals will be allowed to come forward to ERC in the 2005-06 budget context and any conditions that might apply to those.

**Senator CHRIS EVANS**—So this is a pre ERC vetting process, in effect?

**Ms Goddard**—That is right.

**Senator CHRIS EVANS**—This is even before they get to the hurdle of the ERC?

**Ms Goddard**—Correct.

**Senator CHRIS EVANS**—So those propositions go forward. What work does PM&C undertake following that, or is that largely left in Finance and Treasury for a while?

**Ms Goddard**—Following that, ministers go away and work up their portfolio budget submissions. They typically are brought forward just before ERC starts—late February, early March. Prime Minister and Cabinet prepares coordination comments on those submissions. As I detailed before, we also brief the Prime Minister if there is a view at variance with the Finance view, and we arrange all the meetings where those proposals are discussed through ERC.

**Senator CHRIS EVANS**—So that is an intense period from February-March onwards, is it?

**Ms Goddard**—That is right.

**Senator CHRIS EVANS**—When did your involvement cease this year?

**Ms Goddard**—We were involved right up to budget day. There are always loose ends being resolved until that stage. Treasury and Finance are responsible for budget documentation; PM&C does not have a responsibility in relation to the general budget documentation.

**Senator CHRIS EVANS**—So when does PM&C sign off on the budget?

**Ms Goddard**—We do not sign off as such. We go through the ERC process—

**Senator CHRIS EVANS**—When do you see the last iteration then?

**Ms Goddard**—We go through the ERC process and if there is any outstanding correspondence from ministers we brief the Prime Minister on how he might like to respond to that correspondence. There is always a budget cabinet meeting where the cabinet discusses the measures in the budget. That is usually around late April.

**Senator CHRIS EVANS**—When was that held this year?

**Ms Goddard**—I think it was in that late April period but I would have to check the exact date.

**Senator CHRIS EVANS**—If you would not mind, thanks. Did you provide advice to the Prime Minister on proposals subsequent to that budget cabinet meeting?

**Ms Goddard**—If there were outstanding matters from ministers or outstanding budget loose ends then we would have provided advice, yes.

**Senator CHRIS EVANS**—So that is yes, you did?

**Ms Goddard**—Yes.

**Senator CHRIS EVANS**—So when was the last occasion on which you provided advice on outstanding matters about the budget?

**Ms Goddard**—I would have to check the exact date but it was in the week or so preceding the budget.

**Senator CHRIS EVANS**—Perhaps you could give me the date on which you provided the last piece of advice. As you know, there have been suggestions in the paper and, I think, in

comments made by the Prime Minister and the Treasurer about a couple of key meetings between them, which is obviously not unusual, regarding the finalisation of the budget. For instance, I think there was a meeting between the Treasurer and the Prime Minister at the Sydney commonwealth parliamentary offices on Monday, 2 May. Did PM&C provide note takers for that meeting?

**Ms Goddard**—No.

**Senator CHRIS EVANS**—Were note takers present?

**Ms Goddard**—I do not have that information.

**Senator CHRIS EVANS**—Were you provided with decisions from that meeting to implement?

**Ms Goddard**—I would have to check the details of the meeting that you are referring to but, if there were any loose ends discussed that affected budget documentation or if it required correspondence we would have provided advice to the Prime Minister following that. If it was affecting budget documentation it would have been a matter for Treasury and Finance to act on.

**Senator CHRIS EVANS**—I appreciate that you have taken me through the general procedures. I am now coming to the specifics as to decisions, so I would like to be clear about this, as I am referring particularly to a meeting in Sydney between the Treasurer and the Prime Minister on Monday, 2 May. PM&C did not provide note takers, which you would normally do if it were a budget consideration, is that right?

**Ms Goddard**—We did not provide note takers. But it is not unusual for the Prime Minister and the Treasurer to meet in the final stages of the budget and to discuss any loose ends, and cabinet gives them a remit—a hunting licence—to do so.

**Senator CHRIS EVANS**—I think I have a fairly good understanding of how these things work, so I accept that. I come back to the specific question: did PM&C receive a record of decisions of that meeting or instructions to implement decisions following that meeting?

**Ms Goddard**—We were advised of some of the decisions of that meeting where we had a need to act in assisting their implementation and their translation to other departments and ministers.

**Senator CHRIS EVANS**—What does that mean?

**Ms Goddard**—If we had a need to know and take any action, draft any correspondence following those decisions then we were advised of them.

**Senator CHRIS EVANS**—I think we have established you had a need to know. As I understood your earlier evidence, you actually provide the secretariat services and the recording of all the decisions of the two bodies that determine the budget. Do I take it from your evidence that you were given decisions to implement resulting from this meeting?

**Ms Goddard**—We were passed information on the results of the meeting where we needed to be involved in their implementation.

**Senator CHRIS EVANS**—Is it fair to describe them as decisions?

**Ms Goddard**—It is fair to describe them as the Prime Minister's and the Treasurer's final deliberations.

**Senator CHRIS EVANS**—After their meeting, decisions or outcomes of deliberations had to be implemented and PM&C had a role in implementing those decisions?

**Ms Goddard**—We had a role in relaying that information—where it needed to go—and drafting any correspondence that needed to be drafted to formalise those decisions.

**Senator CHRIS EVANS**—Did those decisions then go back to cabinet?

**Ms Goddard**—No. As I explained earlier, cabinet gives the Prime Minister and the Treasurer a licence to finalise the budget. The budget cabinet meeting, I am advised, was on 12 April and the cabinet meeting gives the Prime Minister and the Treasurer that licence and they use that in the usual way.

**Senator CHRIS EVANS**—We will come back to the meeting of 2 May—obviously, that is getting pretty close to D-day. What date was the budget this year?

**Ms Goddard**—It was 10 May.

**Senator MURRAY**—B-day!

**Mr Metcalfe**—It is probably an unfortunate expression.

**Senator MURRAY**—Which is why I mentioned it.

**Senator CHRIS EVANS**—There was an earlier meeting, which I think the PM has spoken about—the dinner at the Lodge—at which the Treasurer and the PM discussed the budget. I do not have the date for that. I think the Prime Minister referred to it as 'a few weeks earlier'. Were there note takers at that meeting dinner?

**Ms Goddard**—There were no PM&C note takers there.

**Senator CHRIS EVANS**—Were there Treasury note takers there?

**Ms Goddard**—Not that I am aware of.

**Senator CHRIS EVANS**—It was a dinner between the Treasurer, Mr Costello, and the Prime Minister. Did you also have decisions conveyed to you from that meeting for implementation?

**Ms Goddard**—I do not recall. A general range of activities were happening at that time and there were a number of outstanding matters of correspondence, so we were briefing on those in the usual way. But I do not recall specific actions at that time.

**Senator CHRIS EVANS**—I am not saying you should know but, just for the sake of clarity, do you know the date of the dinner?

**Ms Goddard**—No, I am not aware of the exact date.

**Senator CHRIS EVANS**—It is not a trick question; I am not sure. I thought it would make it easier. All I have is the Prime Minister saying 'a few weeks earlier', but I will search that from another source.

**Senator Hill**—I cannot see how that is relevant to PM&C.

**Senator CHRIS EVANS**—Senator Hill, that is why I phrased it by saying—

**Senator Hill**—The Prime Minister dines with people all the time. It is all very interesting but—

**Senator CHRIS EVANS**—I am not at all interested generally in whom the PM dines with, to be frank, but I am interested in whether PM&C briefed him for the meeting with the Treasurer on the budget preparation.

**Senator Hill**—There is ongoing briefing in budget preparation.

**Senator CHRIS EVANS**—You surprise me, Senator Hill.

**Mr Metcalfe**—It is fair to say that it is quite an intensive period right through that time, particularly from the end of January when portfolio budget submissions come in but even, as Ms Goddard explained, before that. It is a very intensive period for a number of people. Briefings, advice and letters are being done on all sorts of things all the way through that process.

**Senator CHRIS EVANS**—I think we have established that. I have appreciated the officers explaining to me how it works. But the question was this: did the department provide specific briefings for that meeting at the Lodge?

**Ms Goddard**—We were providing advice around that time on budget loose ends and outstanding matters for decision. They would have gone to the Prime Minister around that time, but not necessarily specifically for that discussion.

**Senator CHRIS EVANS**—But you know there were no note-takers there.

**Ms Goddard**—There were no PM&C note-takers there.

**Senator CHRIS EVANS**—I am sorry—I was not trying to verbal you again. There were no PM&C note-takers there. Can I ask you this again so that it is clear: were decisions relayed from that meeting that required action or implementation from PM&C?

**Ms Goddard**—I cannot say if there were specifically decisions taken at that meeting but, if there were decisions that were formalised later in the budget process, they would be formalised either by cabinet endorsing them or through correspondence. We would typically brief the Prime Minister on correspondence.

**Senator CHRIS EVANS**—And because there were no note-takers there, essentially you do not know—is the right? I am just trying to see how that works. If there is a meeting and no-one takes notes—I am not saying that no-one did take notes, but no-one from PM&C did—how are you then able to know? Would you get advice from the Treasurer's office?

**Ms Goddard**—There would often be correspondence if there were formal decisions to be taken.

**Senator CHRIS EVANS**—And that would be in the form of correspondence from a minister to the PM for cabinet consideration?

**Ms Goddard**—Or correspondence to the Prime Minister for his decision.

**Senator CHRIS EVANS**—From who?

**Ms Goddard**—From a relevant minister, if there are outstanding matters.



**Senator CHRIS EVANS**—So the main source of correspondence would be from ministers toing-and-froing about a particular decision in their area. Is that a fair summary?

**Ms Goddard**—Yes.

**Senator CHRIS EVANS**—So the correspondence might be the subject of a cabinet discussion and decision?

**Ms Goddard**—Particularly if it is before budget cabinet it would be. If it is after budget cabinet, as I have explained, often matters are handled by correspondence under the hunting licence given to the Prime Minister and Treasurer to finalise the details of the budget.

**Senator CHRIS EVANS**—Tell me how that works formally. I accept that the budget cabinet meeting occurs and then the Prime Minister and Treasurer have licence after that. If there is correspondence, say, from a minister about a particular item that is unresolved or there is still some discussion about, do the Treasurer and Prime Minister have to sign off together or does the Treasurer sign off? You described them as having a hunting licence and I accept that. How do they resolve it between themselves? Is there a formal meeting? If you have a letter, say, from Senator Hill who is wanting another couple of billion dollars for another new aeroplane, how do the Treasurer and Prime Minister formally say no to him?

**Ms Goddard**—If there is correspondence from a relevant minister to the Prime Minister, often that would be copied to the Treasurer and Minister for Finance and Administration. They have an opportunity to write or otherwise put their views forward to the Prime Minister on that proposal.

**Senator CHRIS EVANS**—So, at the end of the day, the buck stops with the Prime Minister, not the Treasurer?

**Ms Goddard**—They are jointly involved in the budget, as you know.

**Senator CHRIS EVANS**—I know that. I think most people's understanding is that it is a cabinet decision. You say, and I understand, that decisions are sometimes made post the cabinet budget meeting to resolve outstanding issues. It appears on this occasion that there was a bit of that and that is probably quite normal, although there might have been a bit more this time. But I am trying to understand who formally signs off on it. Cabinet has met and they do not meet again, so it is not a cabinet decision. How is a budget decision then recorded, signed off on and authorised in a formal sense?

**Ms Goddard**—The hunting licence that I referred to earlier is given to the PM and Treasurer and other ministers as needed to jointly finalise the details of the budget. So if he was taking any final decisions on important budget matters the PM would typically do so in consultation with the Treasurer and any other senior budget ministers if they needed to be involved.

**Senator CHRIS EVANS**—But I take it from what you say that at the end of the day after that discussion the Prime Minister signs a letter that says this is going to be part of the budget, or you record a decision.

**Ms Goddard**—That is correct: at the end of the day that is the end of the process.

**Senator CHRIS EVANS**—That makes sense. So how is that recorded? Is that by correspondence from the PM or do you record a decision of the senior ministers?

**Ms Goddard**—At that stage it is usually correspondence from the Prime Minister.

**Senator CHRIS EVANS**—So in effect you have got the decisions of the cabinet budget meeting and you have then got correspondence signed off by the PM. Those documents in total make the formal decision-making process for the budget: is that correct?

**Ms Goddard**—That is correct.

**Senator CHRIS EVANS**—There is no other additional mechanism?

**Ms Goddard**—Not that I can think of.

**Senator CHRIS EVANS**—So when the historians come to look at the records of this budget process they will find decisions recorded by PM&C as cabinet decisions on the budget and a record of those decisions, and they will find correspondence signed off on by the Prime Minister which, if you like, adds to or resolves outstanding budget decisions.

**Ms Goddard**—That is correct.

**Senator CHRIS EVANS**—Can you tell me how many decisions were formally signed off on in addition to the cabinet budget measures?

**Ms Goddard**—No, I do not have that information.

**Senator CHRIS EVANS**—Can you take that on notice for me? Can you tell me the date on which the last of them was signed?

**Ms Goddard**—I think you have already asked me that, and I have taken that on notice.

**Senator CHRIS EVANS**—Okay. To follow this through, once those decisions are taken and recorded, who does the implementation?

**Ms Goddard**—The immediate action is to ensure they are incorporated in the budget estimates and the budget documentation, and that is a matter for Finance and Treasury. After the budget it is the relevant minister and agency that implement those decisions.

**Senator CHRIS EVANS**—I understand. So once a decision is made it is over to Finance and Treasury to make sure the budget papers reflect those decisions?

**Ms Goddard**—Correct.

**Senator CHRIS EVANS**—So who does the major work on that? Finance?

**Ms Goddard**—Finance does the work on the expenditure side of the budget and outlays measures and Treasury does work on the revenue side of the budget and also plays a coordinating role in pulling both sides together, as I understand it. But those questions would be better directed to them.

**Senator CHRIS EVANS**—I will ask them. You have been very helpful; I am just trying to get a broader understanding. So at the end of the day Treasury is responsible for the documentation—they proofread the documentation at the end of the day? That is not PM&C task?

**Ms Goddard**—Both Treasury and finance work closely on that, but Treasury does play a coordinating role. I think the budget documents are documents of both the Treasurer and the Minister for Finance and Administration.

**Senator CHRIS EVANS**—So once the Prime Minister has signed off on the decisions and you have conveyed that to the relevant persons in Treasury and Finance, is that is that the end of PM&C's role in the budget preparation?

**Ms Goddard**—Yes, I think that is fair to say. That is the end of our formal role. We obviously monitor any reaction to the budget and questions coming out of the budget that we might need to brief the Prime Minister on.

**Senator CHRIS EVANS**—I meant prior to delivery—that is the end for you?

**Ms Goddard**—Yes, it is.

**Mr Metcalfe**—Apart from the fact that obviously we have our own portfolio budget statement document. So for measures involving our portfolio we are involved specifically in relation to them.

**Senator CHRIS EVANS**—I was going to come to that. That is right. Basically, decisions are recorded, you convey the information and then Treasury and Finance pull it together, get it printed and make sure the Treasurer has something to hand down on the night.

**Ms Goddard**—That is correct.

**Senator CHRIS EVANS**—What happens with your own portfolio documentation? How does that process work?

**Ms Goddard**—Ms Costello could explain that to you.

**Ms Costello**—Our portfolio budget statements are from all of our agencies. We provide a coordination role across the agencies within the portfolio. Those documents are drafted on templates provided by Treasury and coordinated with Finance. It is quite an iterative process.

**Senator CHRIS EVANS**—Traditionally, when do you finalise those?

**Ms Costello**—Several days before the budget announcement date of 10 May.

**Senator CHRIS EVANS**—No doubt you have printing deadlines pressing on you.

**Ms Costello**—Indeed.

**Senator CHRIS EVANS**—Do you work closely with Treasury and Finance on the final documentation?

**Ms Costello**—Particularly Finance.

**Senator CHRIS EVANS**—But the sign-off on the documentation is done by PM&C?

**Ms Costello**—The actual transmittal letter is by the minister assisting but it is PM&C that coordinates the portfolio PBS.

**Mr Metcalfe**—Just a very minor correction: the transmittal letter is from the parliamentary secretary.

**Ms Costello**—Correct; sorry.

**CHAIR**—Could I take the opportunity on behalf of the committee to welcome a senior parliamentary delegation from the Republic of Indonesia. Welcome. The delegation is led by Mr Irman Guzman. I hope you find this morning informative and interesting. Thank you for coming.

**Senator Hill**—I doubt that!

**Mr Metcalfe**—It is a very good briefing on the Australian budget process.

**Senator Hill**—They have more life in their parliamentary commissions, though.

**Senator CHRIS EVANS**—We probably should have a set piece row now just to give them the real flavour. Where is John Faulkner when you need him? That would fill out the experience. You have taken a range of questions on notice. Perhaps we might come back to those if you get further information. I wanted to ask some questions about industrial relations policy and PM&C's role in that. Am I in the right place, Mr Metcalfe?

**Mr Metcalfe**—We are on general questions.

**Senator CHRIS EVANS**—I know the minister is very concerned that we keep them in the right order, so I just want to make sure.

**Mr Metcalfe**—You have the right people at the table.

**Senator CHRIS EVANS**—We may as well keep them going while they are warmed up. Could you just give me an overview of what the role of PM&C is in the development of the government's industrial relations policy. Is there a task force?

**Ms Goddard**—There is not a task force in the sense that you mean. Earlier there was an interdepartmental committee process which involved a few relevant agencies. That discussed the drafting of proposals to put to cabinet. But the main processes have been cabinet processes operating in the normal way; processes in which the relevant minister brings submissions to cabinet putting a number of proposals in this area.

**Senator CHRIS EVANS**—Just to go back a step, when was the IDC in operation?

**Ms Goddard**—The IDC was in operation late last year and early this year. It still would meet as needs be.

**Senator CHRIS EVANS**—So the IDC is still in operation.

**Ms Goddard**—If there were a need for those agencies to get together, it would still operate. It was just meeting on an as-needs basis.

**Senator CHRIS EVANS**—I take it from that that you are saying it is not the central driver of policy at the moment, then?

**Ms Goddard**—The matters, as I think you are aware, are before cabinet, so it has moved into the stage of ministerial submissions and cabinet discussions. It is in the realm of cabinet.

**Senator CHRIS EVANS**—And PM&C was obviously on the interdepartmental committee.

**Ms Goddard**—Yes, we were.

**Senator CHRIS EVANS**—Who else was on that?

**Ms Goddard**—It was chaired by the Department of Employment and Workplace Relations, and it also involved the Treasury, the Department of Finance and Administration and the Office of Small Business.

**Senator CHRIS EVANS**—What department are they in now?

**Ms Goddard**—The Department of Industry, Tourism and Resources.

**Senator CHRIS EVANS**—Was that IDC meeting pre or post the election?

**Ms Goddard**—It was meeting post election.

**Senator CHRIS EVANS**—So the IDC was formed post election. How often did it meet?

**Ms Goddard**—I would have to check exactly, but I think it met a few times before Christmas and it has met a few times this year so far.

**Senator CHRIS EVANS**—Perhaps you could take that on notice for me. Effectively, as you say, it has now gone to a cabinet level discussion and the IDC, while not disbanded, is not at the centre of where the debate is at at the moment. Is that true?

**Ms Goddard**—The matters are before cabinet—that is correct.

**Senator CHRIS EVANS**—So there is no task force operating?

**Ms Goddard**—There is not.

**Senator CHRIS EVANS**—Yesterday, Mr Metcalfe and I discussed the sort of trend towards task forces. I thought that, given that this was a major priority issue for the government, we might have had one of those formed. Is something more informal operating?

**Ms Goddard**—When decisions are taken, I think the Department of Employment and Workplace Relations would have the main role in implementing those decisions, but we would stay in touch with progress in the normal way.

**Senator CHRIS EVANS**—Is it fair to say that it is being driven out of PM&C at the moment?

**Ms Goddard**—As I said, it is a matter before the full cabinet and on the basis of proposals being put forward by the Minister for Employment and Workplace Relations.

**Senator CHRIS EVANS**—So PM&C are not putting proposals up to cabinet; they are just commenting on departmental proposals.

**Ms Goddard**—We are providing advice to the Prime Minister on the matters before cabinet.

**Senator CHRIS EVANS**—Who is working on it in PM&C? I do not mean the names of the persons. Is it just normally done out of your economic policy unit?

**Ms Goddard**—The Economic Division has carriage on workplace relations matters, and I am the relevant deputy secretary and the secretary has also been involved.

**Senator CHRIS EVANS**—Yes, I hear that Dr Shergold has been complaining around the place that IR is taking up all his time and that he is flat out on it. It is obviously consuming—

**Ms Goddard**—I have not heard him make those comments.

**Senator CHRIS EVANS**—We must talk to different people.

**Senator FAULKNER**—Senator Evans is right in the loop!

**Senator CHRIS EVANS**—I never claimed that.

**Ms Goddard**—He may have heard comments that I have not heard, Senator Faulkner.

**Senator FAULKNER**—There are probably things that Dr Shergold shares with Senator Evans that he does not share with you!

**Senator CHRIS EVANS**—I do not think that is right, but I suspect that if I heard them then they are fairly widely circulated. I am usually the last to hear such things, Senator Faulkner. Is it fair to say that, with his background, Dr Shergold is involved as well as you, Ms Goddard?

**Ms Goddard**—He has been involved, as he would be with any major policy issues before the cabinet.

**Senator CHRIS EVANS**—Sure. Could you refresh my memory: has the Workplace Relations Ministerial Council been involved in these discussions?

**Ms Goddard**—I think that is a question best referred to DEWR.

**Senator CHRIS EVANS**—You are not represented when they meet?

**Ms Goddard**—We are not represented on that council or on its secretariat.

**Senator CHRIS EVANS**—What about at COAG?

**Ms Goddard**—I think we are anticipating that there may be some discussions on workplace relations at the forthcoming COAG meeting.

**Senator CHRIS EVANS**—When is that due?

**Ms Goddard**—It is on 3 June.

**Senator CHRIS EVANS**—Is it formally on the agenda?

**Ms Goddard**—Yes, it is on the agenda.

**Senator CHRIS EVANS**—I know they often discuss things that are not on the agenda.

**Senator Hill**—You would need to get onto it before the premiers walked out.

**Ms Goddard**—That's right!

**Senator CHRIS EVANS**—You would have to be quick. So, in terms of your involvement in the IR development of policy, have you got any extra staff in from DEWR or elsewhere to assist in the work?

**Ms Goddard**—No.

**Senator CHRIS EVANS**—So it is all done by permanent PM&C staff?

**Ms Goddard**—Permanent PM&C staff, very small numbers of them.

**Senator CHRIS EVANS**—Have you had anyone sent over to DEWR to help them with their work?

**Ms Goddard**—No.

**Senator CHRIS EVANS**—I noticed in the budget papers that there is some additional funding for industrial relations. Is any of that going to PM&C?

**Ms Goddard**—No.

**Senator CHRIS EVANS**—What is the process now? I know there was a cabinet meeting. I am not asking what happened at cabinet; I am just trying to understand the process. It is now really at the stage where it is a cabinet decision and then that will be implemented by DEWR.

**Ms Goddard**—As I said, the matters are before cabinet. Once decisions are taken, I presume the government will choose the time when it wants to announce those and then the detailed implementation would be the responsibility of DEWR and the Minister for Employment and Workplace Relations.

**Senator CHRIS EVANS**—And you do not see any role for PM&C, other than your normal duties in terms of the limitation of IR changes?

**Ms Goddard**—We would monitor progress, as we would with any major initiative. If there are details to be settled, the Prime Minister would be involved and we would brief him in the normal way on those details.

**Senator CHRIS EVANS**—So that would be similar to the budget-type processes where, if there are outstanding issues, there might be correspondence between the minister and the PM?

**Ms Goddard**—There might be correspondence relating to any details or legislation et cetera.

**Senator CHRIS EVANS**—Have you been providing note takers for meetings between the Prime Minister and the Minister for Employment and Workplace Relations?

**Ms Goddard**—We have not been providing note takers as such. We have been providing note takers for the cabinet discussions on workplace relations, as we would for any cabinet meeting.

**Senator CHRIS EVANS**—That is just part of the normal process, though.

**Ms Goddard**—Yes, that is right.

**Senator CHRIS EVANS**—Thank you for that. That might complete economics issues.

**Mr Metcalfe**—Does that mean that we have now finished output 1 and moved on?

**Senator MURRAY**—I have a question on output 1, but I will ask you whether it is better put to Finance or, indeed, Treasury. I was concerned that, immediately after the budget, the Deputy Prime Minister indicated that the rural prospects were such that projections made in the budget might not be capable of being realised. It seemed very odd to me, and not just to me, that that statement was made so soon after the budget projections were released, when agricultural conditions were well known. It is not as if they suddenly descend on you. It is not like a 9-11 event. I want to ask some questions surrounding that area, so perhaps you could indicate whether you think it is appropriate.

**Ms Goddard**—The economic parameters are the responsibility of the Treasury. When it comes to expenditure estimates of drought assistance or assistance to farmers, both Finance and the agriculture department—

**Senator MURRAY**—It is not the question of drought assistance.

**Ms Goddard**—The economic parameters are for Treasury.

**Senator MURRAY**—My instinct is that I would be better off asking Treasury.

**Ms Goddard**—Yes, that is correct.

**CHAIR**—Are there any other questions on output group 1, Economic policy?

**Mr Metcalfe**—Mr Chair, if it would assist, there was an item that we promised to come back to this morning that related to Regional Partnerships on questions from Senator Evans.

**CHAIR**—Yes.

**Mr Metcalfe**—I think that fits into output group 1, and Mr Grech is ready to talk further about that, if that would suit the committee.

**CHAIR**—We will do that.

**Mr Grech**—As I undertook to do last night, I had a look at the files and I can confirm that there was correspondence between the Prime Minister and the member for Forde on 11 June 2003 with respect to the Beaudesert Rail project.

**Senator FAULKNER**—Excuse me. I do not wish to interrupt you, but it is very hard to hear you, Mr Grech. Would you mind just speaking up a little?

**Mr Grech**—Would you like me to start again?

**Senator Hill**—He said there was correspondence between—

**Senator CHRIS EVANS**—I think if you start at the correspondence that would be helpful. The sound was very low.

**Senator FAULKNER**—It might be useful. It was very difficult to hear. I am sorry about that.

**Mr Grech**—That is fine; I apologise. There was correspondence on 11 June between the Prime Minister and the member for Forde—

**Senator Hill**—And who?

**Mr Grech**—The member for Forde.

**Senator FAULKNER**—You cannot hear either, Senator Hill?

**Senator Hill**—No, I can't.

**Senator FAULKNER**—Well, it is a change for you to concentrate, anyway. That is good.

**Senator Hill**—I am interested in this bit.

**Senator FAULKNER**—You are interested in something?

**Senator Hill**—Yes.

**Senator FAULKNER**—Excellent. I hope that is recorded in *Hansard*.

**Mr Grech**—I will go for the third time. On 11 June 2003, there was an exchange of correspondence between the Prime Minister and the member for Forde with respect to the Beaudesert Rail project. It canvassed various issues with respect to the ongoing performance



of the project. Various options were considered by the government, but ultimately the government decided that, in order to maximise the operational viability of the project, a grant rather than a loan option was the most practical and sensible course of action. The government decided to pursue that through the Regional Partnerships program in partnership with the Queensland state government rail authority as well as the local government authority, which was the Shire of Beaudesert. So effectively what you had here was, if you like, a partnership approach between all levels of government to try to maximise the operational viability of the Beaudesert Rail project for the benefit of the people of the shire of Beaudesert.

**Senator CHRIS EVANS**—Can I just take you to the detail. Are you saying that the first correspondence the Prime Minister received was on 11 June 2003?

**Mr Grech**—No, there was earlier correspondence. The correspondence on this issue dates back to 7 January 2003, and there was a chronology of correspondence going back—

**Senator FAULKNER**—Could we hear the chronology or could you table the chronology—one of the two?

**Mr Grech**—This document is internal to PM&C, so I will not table this document.

**Senator FAULKNER**—Then could we just hear perhaps, in detail, Mr Grech, the full chronology, please?

**Mr Grech**—There was correspondence from the member for Forde on 7 January 2003. There was an exchange of correspondence on 26 February 2003 from the Hon. Peter Slipper—at that time the Acting Parliamentary Secretary to the Prime Minister—to the member for Forde. There was further correspondence from the member for Forde on 20 May 2003. There was further correspondence, as I say, on 11 June.

**Senator FAULKNER**—The correspondence on 11 June was going from whom to whom?

**Mr Grech**—The Prime Minister responded to the member for Forde on 11 June.

**Senator CHRIS EVANS**—This is in response to her letter of 20 May?

**Mr Grech**—Correct, yes. And there was some subsequent correspondence from the Deputy Prime Minister and the parliamentary secretary on 19 August 2003, 11 August—

**Senator FAULKNER**—Stop there. The Deputy Prime Minister and the parliamentary secretary—that is Mr Slipper again, is it?

**Mr Grech**—Yes. On 11 August, the parliamentary secretary, the Hon. Peter Slipper, wrote to the Deputy Prime Minister. There was further correspondence from the parliamentary secretary to the deputy PM on 19 August 2003, further correspondence from the deputy PM to the PM on 3 September 2003—

**CHAIR**—That was 3 September?

**Mr Grech**—Yes, 3 September.

**Senator CHRIS EVANS**—That was from deputy PM Anderson to the Prime Minister?

**Mr Grech**—Correct. The Prime Minister responded on 4 September 2003 and then there was also correspondence from the deputy PM to the PM on 11 December 2003.

**Senator FAULKNER**—Sorry, let us go at a reasonable pace. On 4 September the Prime Minister wrote to the Deputy Prime Minister, did he?

**Mr Grech**—Correct, in response to the deputy PM's correspondence to the Prime Minister of 3 September. There was further correspondence from the Deputy Prime Minister to the Prime Minister on 11 December 2003 and further correspondence—

**Senator FAULKNER**—Sorry, stop again. Did you say 'December'?

**Mr Grech**—It was 11 December 2003. The Prime Minister wrote to the Deputy Prime Minister on 20 February 2004. That is the extent of the chronology of correspondence that I have. There was, of course, important correspondence—perhaps the most important correspondence in this whole exchange—on 16 February this year and again on 15 March this year, from the Prime Minister to the Hon. Kim Beazley, the Leader of the Opposition, which I think clearly articulates the government's position on this issue, including the way in which decisions were made and why the type of assistance that was decided upon was indeed decided upon. That correspondence, as I say, went from the Prime Minister to the opposition leader on 16 February and 15 March this year.

**Senator FAULKNER**—We will make our own judgments about whether it is a full and frank explanation. But there are two items of correspondence from the Prime Minister to Mr Beazley on those dates, 16 February and 15 March?

**Mr Grech**—Correct.

**Senator CHRIS EVANS**—Do I take it then that we can assume that there was no other correspondence from the Prime Minister on the question of Beaudesert Rail to the state government, to Beaudesert Rail and to other persons?

**Mr Grech**—I put together this chronology at two o'clock this morning, so that is as far as I could take it in the time I had available. I could not find or locate any other correspondence.

**Senator CHRIS EVANS**—And it is fair to say that it would generally be on the one set of files, so if it is there you should have seen it?

**Senator Hill**—The question has been answered. I do not think you can extract from him what does not exist.

**Senator FAULKNER**—Wait a minute. What Senator Chris Evans is asking, Senator Hill, which no doubt you would think is a reasonable question, is whether all such correspondence records are held in the same file. That is a perfectly reasonable process question. I am sure you would agree, Mr Metcalfe, about the administrative arrangements within the Department of the Prime Minister and Cabinet.

**Mr Metcalfe**—What Mr Grech has said is that, at two o'clock this morning, this was the information he was able to ascertain.

**Senator CHRIS EVANS**—What we are trying to ascertain is whether that represents the best efforts of an officer under pressure in a short time frame or a comprehensive search of the files. That is what we are trying to get a sense of.

**Senator Hill**—He has just answered that—

**Senator CHRIS EVANS**—No, he did not.

**Senator Hill**—He said it was a best effort under pressure, finished at 2 am this morning in order to be helpful to you, Senator.

**Senator CHRIS EVANS**—That is why I was trying, before you interrupted, to get a sense—

**Senator Hill**—Give him another week and he might find some more.

**Senator CHRIS EVANS**—I might do that. I was just trying to get a sense of whether the officer needed more time or whether he was reasonably confident, to the best of his ability, that that was likely to be it.

**Mr Metcalfe**—Could we perhaps leave it in this way: according to the information I have we are as sure as we can be, but, if there is any other information which touches on this, we will correct our answer on notice.

**Senator CHRIS EVANS**—Thank you. All I was trying to get a sense of was what the officer had been able to do and whether or not there was an area of—

**Mr Metcalfe**—I think he has demonstrated that he was being as helpful as he possibly could be.

**Senator CHRIS EVANS**—I am not disputing that. I am also conscious that there may be other files held by other officers. I am just trying to get a sense of whether or not he has actually been able to have a reasonably thorough go or whether—

**Mr Metcalfe**—We are as confident as we can be, but we will come back if there is anything more.

**Senator CHRIS EVANS**—Can we go back to the letter of 11 June 2003 from the member for Forde.

**Senator FAULKNER**—No, it was from the Prime Minister to the member for Forde, wasn't it, Mr Grech?

**Mr Grech**—That is correct.

**Senator CHRIS EVANS**—That is the one which you say detailed the fact that the decision had been taken to go to a grant rather than a loan and it would be pursued through the Regional Partnerships program?

**Mr Grech**—No, I did not say that. The letter of 11 June canvassed various options. What I said was that, at the end of this process of consideration and the exchange of correspondence between relevant ministers and the local member, the government ultimately took the decision, as I have indicated, that a grant option was the most viable option in partnership with the Queensland state government and the local government through the Shire of Beaudesert.

**Senator CHRIS EVANS**—Who took that decision and when was it taken?

**Mr Grech**—Ultimately, this was a decision which would have been taken by the Deputy Prime Minister and the Prime Minister. As I think I indicated last night, the Deputy Prime Minister is actually responsible for the administration of the Regional Partnerships program from which the grant component of the project assistance was sourced. Ultimately, the Deputy

PM provided a view to the PM. The Prime Minister would have concurred in light of all of the advice that would have been put to him. As I said, it was a partnership approach that tried to maximise the viability of the project.

**Senator FAULKNER**—Let us go then to the question of advice. I want to go to the substance of the advice, but let us go to the process that underpins it. You have given us an indication of the correspondence trail. Can you indicate whether departmental advices—in other words, PM&C departmental advices—were either sought or received in relation to any of these matters? I understand what you are saying about the administration of the grants program and that part of this process of administration of the grants program is in another department. But, of course, there are more threshold issues here to do with whether a loan or a grant might be applied in relation to this particular project. What work might have been generated or was undertaken in the department in relation to the issues that were raised in this correspondence, if there was any?

**Mr Grech**—As you would appreciate, PM&C is a policy advising and policy coordinating agency. We provide advice to our Prime Minister on a whole range of things. Clearly, we would have, as part of our normal day-to-day operations, provided advice—whether it was solicited or not, frankly—on the merits or otherwise, the pros and cons and option A, option B and option C that may have been relevant to this project. That is what we are paid to do. We provided advice on this issue on more than one occasion but, as I indicated last night—I do not want to be unhelpful, but I think you would appreciate my position as an official—the nature of that advice is a matter between the department and the Prime Minister.

**Senator FAULKNER**—That is what you are paid to do. Now let me tell you what I am paid to do. I am paid to ask you reasonable questions about the process that underpins the advice that you describe as so confidential. I am not asking you about the substance of the advice. I am not asking you about the nature of the advice. Just so we are entirely clear: I am asking you about the process involved if and when advices were sought or offered. You have indicated that advices were provided. Perhaps you can indicate, first of all, the number of advices that were provided by the Department of the Prime Minister and Cabinet.

**Mr Grech**—The department provided advice basically each time we had seen correspondence on this project from either the member for Forde or the Deputy Prime Minister. What normally happens is that the department would get a copy of the correspondence—more likely from the office—and the department would provide advice to the Prime Minister on issues raised in that correspondence.

**Senator FAULKNER**—Mr Grech, I have given up worrying about what normally happens, because there is nothing normal about the way these sorts of things occur necessarily. All I want to know is what happened in this instance.

**Mr Grech**—That is what would have happened.

**Senator FAULKNER**—So let us now go through the timing of the individual advices that were provided. You are with me, aren't you, Mr Metcalfe?

**Mr Metcalfe**—Yes, Senator. I think Mr Grech is saying that he has already explained the chronology of correspondence to and from the Prime Minister and he is indicating that, on

each occasion prior to the Prime Minister responding to correspondence, the draft letter would have been accompanied by departmental advice, quite likely attaching a suggested response.

**Senator FAULKNER**—So I can be assured then—which I was not—that a departmental advice was prepared along with a letter for signature by the Prime Minister on each and every occasion.

**Mr Grech**—Just to add to that, I can confirm that PM&C provided briefing on 10 June 2003, 11 June 2003 as well as 4 November 2003.

**Senator FAULKNER**—Thank you. That was not too hard, was it? So there was no advice when the Prime Minister wrote to Mr Beazley on 16 February 2004 and 15 March 2004? I have just been assured by Mr Metcalfe that, before these sorts of letters are sent off, there would be a departmental brief.

**Mr Grech**—Just to correct you, if I may, Senator: the correspondence from the Prime Minister to the Leader of the Opposition was actually in 2005.

**Senator FAULKNER**—You are right—it was 2005.

**Mr Grech**—A couple of months ago. My understanding is that there was some briefing provided to the Prime Minister with respect to that correspondence.

**Senator FAULKNER**—So can we add that to the list then? When was that provided?

**Mr Grech**—I do not have the exact dates, but it would have been a couple of days before the actual date of the correspondence. So we are talking about mid-February and mid-March of this year.

**Senator FAULKNER**—We ought to try to be a bit more specific than that. What about when the Prime Minister wrote to the Deputy Prime Minister on these matters on 20 February 2004? Was there a brief then?

**Mr Grech**—I could not locate a copy of the briefing note, so I cannot give you a categorical answer.

**Senator FAULKNER**—Mr Metcalfe, do you want to review your evidence in light of the information we have just heard? I understand the general principle that you are applying.

**Mr Metcalfe**—I was talking in general terms.

**Senator FAULKNER**—And I accept that—but you also know what questions are being asked.

**Mr Metcalfe**—That is right, and I also prefaced my comment about briefings in response to correspondence. We can check the facts, but I think that the letters to the opposition leader may have been in response to questions without notice in the House of Representatives. There may have been no incoming correspondence. But, if what I understand is that not only would you like advice in relation to the correspondence that occurred involving the Prime Minister, the Acting Prime Minister or a Parliamentary Secretary to the Prime Minister but also as to the number of occasions in which the department provided briefings on this issue, then Mr Grech has provided some information and if we can add to that, we will.

**Senator FAULKNER**—That would be helpful. I am merely indicating that you might have received a public administration 101 lecture about how things generally work, but you would appreciate that often the devil is in the detail with these things and we may as well be precise.

**Mr Metcalfe**—I am not disputing anything you are saying.

**Senator CHRIS EVANS**—Can we just go back to the start, Mr Grech. Let me follow this through. On 7 January 2003, the member for Forde wrote to the Prime Minister—in general terms, I think—seeking assistance for the Beaudesert Rail project. Is that right; is that the start of the PM&C involvement?

**Mr Grech**—That is the chronology that I have.

**Senator CHRIS EVANS**—And on 26 February 2003, Mr Slipper replied to the member for Forde. Explain to me how it falls to Mr Slipper. He was Parliamentary Secretary to the Prime Minister at the time, is that right?

**Mr Grech**—Acting parliamentary secretary.

**Senator FAULKNER**—Acting parliamentary secretary?

**Mr Grech**—That is what I understand. At the time—

**Senator FAULKNER**—Can you explain that to me, Mr Metcalfe. How can you be an acting parliamentary secretary?

**Mr Metcalfe**—My recollection is that Mr Slipper was Parliamentary Secretary to the Minister for Finance and, for a period of time, was an acting Parliamentary Secretary to the Prime Minister.

**Senator CHRIS EVANS**—Can you just explain to me how it is that the parliamentary secretary is allocated that work. Is that because he or she deals with correspondence on behalf of the Prime Minister, or is it because it was a Queensland project?

**Mr Grech**—Judgments are made as to whether certain correspondence is dealt with at parliamentary secretary level or prime minister level. On that occasion I can only assume that the matter was deemed appropriate for the parliamentary secretary to deal with.

**Senator CHRIS EVANS**—Fair enough. So Mr Slipper is given it—

**Senator FAULKNER**—Just before we go on, I would like an explanation from Mr Metcalfe. Was Mr Slipper sworn in for this position? How does this work?

**Mr Metcalfe**—To be honest, I am not sure—but I can check, if you like, and give you an answer.

**Senator FAULKNER**—I just wondered how, if Mr Slipper had certain responsibilities in one department—does it work like an acting ministerial arrangement?

**Mr Metcalfe**—That is my understanding, but I can make inquiries this morning and let you know, if you are interested.

**Senator FAULKNER**—How long was he acting in that position?

**Mr Metcalfe**—I will check that as well.

**Senator FAULKNER**—Is this when Senator Heffernan fell in a heap?

**Mr Metcalfe**—I am not sure what you are saying.

**Senator FAULKNER**—I am saying that Senator Heffernan had a—

**Mr Metcalfe**—Senator Heffernan had been parliamentary secretary—

**Senator FAULKNER**—He hit the fence, basically. That is what I meant by ‘fell in a heap’.

**Mr Metcalfe**—If you would like information as to Mr Slipper’s period as acting parliamentary secretary, I can provide that.

**Senator FAULKNER**—You would recall that Senator Heffernan resigned or stood down as parliamentary secretary because he kicked a massive own goal. Do you recall that?

**CHAIR**—To jump to Senator Heffernan’s defence, is that really relevant, Senator Faulkner?

**Senator CHRIS EVANS**—That would be a first, I suspect.

**Senator FAULKNER**—I am just trying to find out why we had an acting parliamentary secretary and how long he was there for.

**Mr Metcalfe**—I have undertaken to answer that. I should be able to come back to you on that after the morning tea break.

**Senator FAULKNER**—Thank you.

**Senator CHRIS EVANS**—Before Senator Faulkner helped us with those matters—

**Senator FAULKNER**—I am here to help.

**Senator CHRIS EVANS**—I was trying to get a sense of how Mr Slipper got the job of replying to the member for Forde. I presume Mr Slipper does not draft all his letters himself.

**Senator FAULKNER**—He would not be capable of it.

**Senator CHRIS EVANS**—In terms of the advice process, does the parliamentary secretary get the full support of the PM&C office to draft responses et cetera?

**Mr Grech**—Correct.

**Senator CHRIS EVANS**—So the advice that was contained in the letter to the member for Forde would have been provided by PM&C and then put in a draft for Mr Slipper.

**Mr Grech**—It would have been.

**Senator CHRIS EVANS**—So, the advice mechanism would be the same as the Prime Minister replying, but the task was delegated to Mr Slipper.

**Mr Grech**—Correct.

**Senator FAULKNER**—But Mr Slipper was the decision maker. Is that correct, Mr Metcalfe?

**Mr Metcalfe**—I think Mr Slipper was signing correspondence on behalf of the Prime Minister.

**Senator FAULKNER**—But this was not a brief sighted by the Prime Minister, was it? It was a brief that went to the parliamentary secretary.

**Mr Metcalfe**—That is correct, but I do not know if there was a decision as such, other than to sign the letter.

**Senator FAULKNER**—The key thing is that the brief did not go to Mr Howard; it went to Mr Slipper.

**Mr Metcalfe**—That is correct.

**Senator CHRIS EVANS**—Mr Slipper wrote to the member for Forde. The member for Forde then wrote back to the PM on 20 May, I think you told us, Mr Grech. But that letter was brought to the attention of the Prime Minister, was it?

**Mr Grech**—Correct.

**Senator CHRIS EVANS**—And advice was provided to the PM, I think you said, which informed his reply to the member for Forde, which was dated 11 June.

**Mr Grech**—Yes.

**Senator CHRIS EVANS**—I got a bit confused before. Forgive me. I got the sense that you were saying that that was around the time that this decision was taken, but I gather that at that stage a range of options were still live. Is that right?

**Mr Grech**—In June 2003; that is correct.

**Senator CHRIS EVANS**—Did the PM indicate a willingness to play some role in supporting Beaudesert Rail?

**Mr Grech**—I am not going to go into the details and specifics of what was in the correspondence. What I will repeat is that in mid-June 2003 a number of options were on the table and the decision to go for the grant option was not taken until later in the process.

**Senator CHRIS EVANS**—Can you tell me when the decision to take the grant option was made?

**Mr Grech**—In late November 2003, somewhere between 4 November and 11 December. The final exchange confirming the grant assistance would have been taken on 20 February 2004.

**Senator CHRIS EVANS**—Let us go back a step. I got a bit confused. You said late September and then you said—

**Mr Grech**—There was a final exchange from the Prime Minister to the Deputy Prime Minister on 20 February 2004 in which the Prime Minister gave the tick-off, as it were, for the grant to come out of the Regional Partnerships program.

**Senator CHRIS EVANS**—So that was a decision by the Prime Minister.

**Mr Grech**—The Deputy Prime Minister, as the minister responsible for the program, approached the PM on 11 December basically seeking an agreement to finally lock in the grant option from the Regional Partnerships program. That was confirmed in correspondence from the Prime Minister to the Deputy Prime Minister on 20 February 2004.



**Senator CHRIS EVANS**—I guess I got a little lost in the middle there. If it is the Deputy Prime Minister's program and he is responsible for it, how does the Prime Minister tick off on the grant?

**Mr Grech**—There is an appropriation issue. It is a budget related matter. The Deputy Prime Minister is responsible, but he should still seek the final okay of the PM when it comes to expending the amount of money that we were talking about.

**Senator CHRIS EVANS**—Is that governed by some sort of monetary level—over a certain amount it has to go to the Prime Minister for tick off—or is it just a convention?

**Mr Grech**—I am not familiar with the actual thresholds, cut-offs or volumes, but I think it is generally a case-by-case thing. You would normally find that a number of ministers would often write to the Prime Minister, informing him as to decisions they are planning to take which have an impact on the budget, after consulting the Treasurer and the minister for finance as deemed appropriate.

**Senator CHRIS EVANS**—I understand that, but for what I think was \$600,000 of a program much larger than that within the Deputy Prime Minister's control I am a little surprised. Do I take it then that all the other regional grants were ticked off by the Prime Minister as well?

**Mr Grech**—I do not know. The Deputy Prime Minister has portfolio responsibility for the Regional Partnerships program. You may wish to take up that line of questioning with my colleagues in the department of transport.

**Senator CHRIS EVANS**—Perhaps you would take on notice whether or not the Prime Minister authorised any other payments out of that program.

**Mr Grech**—Sure.

**Senator CHRIS EVANS**—So the Prime Minister finally ticks off on this on 20 February. I come back to the question about when the decision was taken to approve the grant. You talked about late November in answering that question earlier, and I just want to be clear about what you are saying to me.

**Mr Grech**—The actual decision point would have been taken sometime between mid-November 2003 and early December 2003. If you are asking me for the exact date on which a decision was taken I cannot give you that, because I do not have it.

**Senator CHRIS EVANS**—Fine. But how would you find that out? How would you find a record of that decision? You told me that in fact the Prime Minister did not tick off until 20 February. If you were looking for that decision, if you took the question from me on notice as to when that decision was made, what would be your source for that?

**Mr Grech**—I would have to go back to the final correspondence of 20 February, because that is what ultimately gives the authority.

**Senator CHRIS EVANS**—Do you have any correspondence or record of any exchange, meeting or decision concerning this matter involving the Prime Minister on 4 or 5 November 2003?

**Mr Grech**—I do not have any record of decision.

**Senator CHRIS EVANS**—So you think the decision was made later than that?

**Senator Hill**—I do not think that is what he said.

**Senator CHRIS EVANS**—He did say that: he said he thought it was mid-November to mid-December.

**Senator FAULKNER**—He gave a range of dates.

**Senator CHRIS EVANS**—All of those dates were later than that date, and I am trying to understand why that is.

**Mr Grech**—It was a range. I do not have a specific date on which a decision was made. But the correspondence of 20 February gave the ultimate authority.

**Senator CHRIS EVANS**—Why do you say to me that you think it happened between mid-November and mid-December?

**Mr Grech**—Because we would have provided advice, the issue would have been no doubt canvassed and discussed within the office, and the Prime Minister would have considered the issue, taken the decision and then communicated that decision. There is a gap from the time you take a decision to when you communicate a decision. As to when that decision was actually taken I can only speculate, because I do not have an actual date.

**Senator CHRIS EVANS**—So you do not have any record of the fact that the Deputy Prime Minister wrote to Mr McIntosh offering a grant of \$660,000 on 5 November 2003?

**Senator Hill**—That does not sound as if it is business of this department.

**Senator FAULKNER**—He asked whether this department had a record of it.

**Senator Hill**—The business of this department seems to have come about through correspondence from the local member. The Prime Minister, as is not unusual, is asked to provide a view on matters—and that occurred in relation to this particular matter.

**Senator FAULKNER**—Senator Evans's question was whether this department had a record of such correspondence.

**Mr Grech**—We do not.

**Senator FAULKNER**—Thank you.

**Mr Metcalfe**—I seek the committee's indulgence. Perhaps somewhat optimistically, Ms Pearce from the APEC task force has arranged to go to Sydney, leaving at about 11.15. There were some questions of her last night. I was wondering if there were any more. If there are any more then of course she will stay here and be available for the committee, but if there are none then she might be able to keep this appointment in Sydney.

**Senator CHRIS EVANS**—I think Senator Carr might have had a couple of questions that he mentioned to me last night, but I am sure they can go on notice. We would not want to interfere with the officer's travel arrangements.

**Mr Metcalfe**—We appreciate that. We just wanted to make it clear that we are more than happy for Ms Pearce to postpone the travel, but if we can reach an accommodation—

**Senator CHRIS EVANS**—I accept that. If Senator Carr is unhappy, send him to see me.

**Mr Metcalfe**—I will send him to see you, thank you.

**Proceedings suspended from 10.36 am to 11.02 am**

**CHAIR**—With respect to the department, we will continue working through the output groups.

**Senator FAULKNER**—Mr Grech, you have outlined the formal contact—the correspondence trail, if you like—between the Prime Minister and other members of parliament that the department is aware of. You have also indicated to us the briefing that was provided by PM&C. I now ask about contact between the department and the Prime Minister’s office on this issue. Do you have any records in relation to that? This is obviously over and above the briefing that was supplied to the Prime Minister which you have detailed for the committee. I am now talking about contact with the PMO.

**Mr Grech**—As you would appreciate, in the conduct of our day-to-day business we engage with the Prime Minister’s staff in the Prime Minister’s office, but I do not have any specific bits of correspondence or documentary evidence to point you to and say that we spoke to adviser X or adviser Y on a particular date, at a particular time, on a particular issue.

**Senator FAULKNER**—I do appreciate that you have contact with staff in the PMO. I understand that. If there were, for example, email traffic on this issue, records would be kept of that, would they not, Mr Metcalfe?

**Mr Metcalfe**—There would be a record of email traffic.

**Senator FAULKNER**—Where would that record be found?

**Mr Metcalfe**—It would be located on the department’s computer systems.

**Senator FAULKNER**—Were any file notes taken, Mr Grech?

**Mr Grech**—I have not seen any and I do not have any email exchanges on this issue and the timelines that we have discussed.

**Senator FAULKNER**—Who was the departmental officer in PM&C who had carriage of this issue? It was not you, I gather.

**Mr Grech**—No, it was not me. My division head would have had overall responsibility for the issue within the division but he is no longer with the department.

**Senator FAULKNER**—Who was that?

**Mr Grech**—James Horne was the division head.

**Senator FAULKNER**—Are your files adequate enough for you to be able to say to the committee which officer was handling that below the level of division head?

**Mr Grech**—Yes, but I cannot see the relevance of naming the individual officer or officials who had line or desk responsibility on this issue or, frankly, any other issue.

**Senator FAULKNER**—You are entitled to your opinion—but, then again, you are not asking the questions; I am. You are just answering them.

**Ms Goddard**—The relevant division head, Dr James Horne—who had been division head for five years or thereabouts—left in the last few weeks and the relevant branch head, the

assistant secretary, has gone overseas because their spouse has a posting. The new person in that position has been there for just a few weeks.

**Senator FAULKNER**—Who was the branch head who was responsible?

**Ms Goddard**—Going back to 2003, I think we would have to check. It might have been Mr Sargent and then Mr Clively after that.

**Senator FAULKNER**—See, that was not too hard, Mr Grech. It was not too hard at all. I would have thought, Mr Metcalfe, that we could be pretty clear on who the branch heads were at the time.

**Mr Metcalfe**—I think what Mr Grech was articulating is that normally we do not go into naming officers below the SES level unless there is a particular reason.

**Senator FAULKNER**—There is a particular reason in this case. It was a reasonable question. I think you would be aware that these sorts of questions are not asked as a matter of course. They are asked only if it is relevant. It is up to senators on this side of the table to be judging the relevance. Every question is irrelevant according to Senator Hill and there should not be any questions asked. Accountability is not in Senator Hill's dictionary.

**CHAIR**—Senator Faulkner!

**Senator FAULKNER**—It is true. Let us be honest. We would not have a process like this if it were up to members of your government, Senator Mason.

**Mr Metcalfe**—I think we have already undertaken to provide any further information on written briefings. We have as yet not been specifically asked about any other records. You may come to that. I do not quite see why naming a particular officer below the SES level will assist. But, depending on how you frame the question, the department will seek to respond.

**Senator FAULKNER**—At this stage, I cannot make a judgment on whether or not it will assist. The problem we have, Mr Metcalfe, is that the department appears to be unable to answer and qualifies almost all its answers in relation to what I think are pretty straightforward process questions. Everybody knows, Mr Metcalfe, that the Deputy Prime Minister and his department did not want this bogey process to go ahead and everybody knows that the Prime Minister rode over the top of DOTARS and the Deputy Prime Minister to see it happen. We all know that.

**CHAIR**—All right, Senator Faulkner!

**Senator FAULKNER**—I am just telling you; we all know that. I am just trying to deal with the processes that occurred within the department.

**Senator Hill**—There seems to be a shortage of questions—

**Senator FAULKNER**—I am trying to establish what happens within the Department of the Prime Minister and Cabinet.

**CHAIR**—Senator Faulkner, ask your question.

**Senator FAULKNER**—I am. I was asked a question and I am answering it. I am interested in knowing what communications have taken place between the Department of the Prime Minister and Cabinet and the PMO. I am drawing a distinction, as you would

appreciate, Mr Metcalfe, between the PMO and the correspondence and briefing directly to the Prime Minister that Mr Grech has outlined to the committee. Mr Metcalfe, you are saying that you do not have any details of that at the moment?

**Mr Metcalfe**—Not to hand.

**Senator FAULKNER**—I accept that. Could you take that on notice and provide that detail to the committee at the earliest convenience.

**Mr Metcalfe**—Just to clarify exactly what we are taking on notice, it concerns details of any communications between the department and the Prime Minister's office in relation to this matter?

**Senator FAULKNER**—In relation to this matter.

**Senator Hill**—It cannot relate to the details of communications; it can relate to whether there were communications. But it would not be surprising if you send a brief to the Prime Minister that his staff might contact, seeking clarification. There is nothing extraordinary in that.

**Senator FAULKNER**—I am not suggesting it is surprising or not. I am not asking for the content of the communications.

**Senator Hill**—You want to know if there were other communications between the department and the PMO?

**Senator FAULKNER**—No, I do not. I want to know more than that. I am asking for detail of—

**Senator Hill**—You do not get detail.

**Mr Metcalfe**—Taking it on notice does not necessarily mean that we will provide the detail. We will provide an answer.

**Senator FAULKNER**—But the detail I am requesting is the time, the date and the type of communication that occurred between the department and the PMO. I am not asking for the content of such communications; I am asking for an outline of the administrative actions and other actions that passed. It is quite a straightforward matter.

**Mr Metcalfe**—We will take that on notice and endeavour to assist as much as we can.

**Senator FAULKNER**—I hope so. I appreciate that you are endeavouring to assist. I would have thought you ought to be able to give me a full and precise answer on that.

**Mr Metcalfe**—I am giving you an unqualified best endeavour.

**Senator FAULKNER**—It does not offend any of the principles that have been enunciated at the table on a number of occasions today. I am not going to the content of the communications; I am going to the processes around those communications, so if you could do that.

**Mr Metcalfe**—That is noted.

**Senator FAULKNER**—Was there a particular PMO staffer who was the contact person on this matter? Do you know?

**Senator Hill**—That is PMO business.

**Senator FAULKNER**—No, it is not.

**Senator Hill**—I do not see that is department business.

**Mr Metcalfe**—There is an adviser who deals with those issues.

**Senator FAULKNER**—Are you able to say who that is?

**Senator Hill**—No.

**Senator FAULKNER**—You do not know, Senator Hill. I am not asking you. I was asking—

**Senator Hill**—You are not able to ask who in the Prime Minister's office deals with which particular matter.

**Senator FAULKNER**—Of course I am.

**Senator Hill**—You are entitled to ask it, but you are not getting an answer.

**Senator FAULKNER**—Why not?

**Senator Hill**—Because you have no right to know the inner workings of the Prime Minister's office. You are entitled to know matters of process.

**Senator FAULKNER**—Isn't it a process to know who has been—

**Senator Hill**—Not who the individual is, no.

**Senator FAULKNER**—Why not? This is a standard question that has been asked—

**Senator Hill**—And the usual answer is no.

**Senator FAULKNER**—It is not the usual answer.

**Senator Hill**—It is the answer you get from me.

**Senator FAULKNER**—Of course, because inevitably your first defence is to try to cover up on these sorts of things.

**Senator Hill**—I thought we would get to 'cover-up' pretty soon.

**Senator FAULKNER**—There you are.

**Senator Hill**—We are into the second day before the first cover-up allegation.

**Senator FAULKNER**—Can you just explain to the committee what the problem is with providing the name of the staffer whom departmental officials are dealing with? What is the latest excuse—

**Senator Hill**—It is not the latest excuse.

**Senator FAULKNER**—for this lack of transparency?

**Senator Hill**—It is the longstanding appreciation by most that the inner workings of the minister's office are not an issue of public scrutiny.

**Senator FAULKNER**—They are not the inner workings.

**Senator Hill**—The names of the individuals who carry out certain tasks—

**Senator FAULKNER**—The interface?

**Senator Hill**—and how they account to their boss, or whatever, are not matters of legitimate scrutiny by—

**Senator FAULKNER**—This is the interface between departmental officials and whoever the relevant staffer is in the Prime Minister's office.

**Senator Hill**—You are entitled to know whether the department gave advice. I think it is a fine point as to whether you are entitled to know whether it was given to the Prime Minister or the Prime Minister's office. I am not sure how you would draw that distinction, but the department has generously said that it will try and draw that distinction. I would have thought that all advice was to the Prime Minister.

**Senator FAULKNER**—If you want to adopt the principle of all these advices being thrown into the ring, that is fine, but what the official at the table has given is an indication of communications on this issue that the Prime Minister's department is aware of and that has involved members of parliament. Now I am asking for the same level of information about communications that have involved not members of parliament but just the Prime Minister's office. It is a clear distinction, but if you want to lump it all together, I really do not care. It is standard operating procedure for committees like this to be provided with that sort of information.

**Senator Hill**—It is not standard at all.

**Senator FAULKNER**—And it is standard operating procedure for people like you to try and ensure that we do not have any level of transparency or accountability.

**Senator Hill**—Because it is public expenditure, you are entitled to know whether the Prime Minister was given advice by his department. It has probably gone beyond the normal custom already today by talking about correspondence between the Prime Minister and other members of parliament.

**Senator FAULKNER**—If I were you, I would just get back to the files you have been working on today.

**Senator Hill**—You seem to have run out of questions.

**CHAIR**—Senator Faulker, if you would ask some questions, it would assist the committee.

**Senator FAULKNER**—I have asked questions and they have been taken on notice because answers could not be provided.

**CHAIR**—Some further questions would assist.

**Senator FAULKNER**—Yes. Senator Evans has some further questions that he wishes to ask—

**CHAIR**—Thank you for your assistance.

**Senator FAULKNER**—but I would not insinuate, Chair, that questions were not asked. The problem is that questions have not been answered.

**CHAIR**—Thank you.

**Senator CHRIS EVANS**—I take Mr Grech back to the advice provided to the Prime Minister and the process surrounding that. In particular, Mr Grech, you indicated that you gave three briefings to the Prime Minister on these matters: one on 10 June, one on 11 June and one on 4 November. Were they written briefings or verbal briefings?

**Mr Grech**—They were written briefings.

**Senator CHRIS EVANS**—And these were then conveyed to the Prime Minister by fax or something, were they?

**Mr Grech**—The department has a normal internal courier type arrangement, whereby we have people take papers up to the Prime Minister's office in Parliament House on a regular basis during a business day.

**Senator CHRIS EVANS**—I understand from evidence at the regional program inquiry that the Prime Minister was travelling in the country at the time. I think the letter that he sent to Mrs Elson was actually faxed from a country motel on 12 June. The department did not actually go out and brief the Prime Minister while he was travelling?

**Mr Grech**—We are not on top of the specific details as to whether it was faxed or sent via courier pigeon, frankly. The bottom line is that advice was provided and dealt with.

**Senator CHRIS EVANS**—Let me help you. I understand the Commonwealth has given up on using courier pigeons in the last few years—

**Mr Grech**—Thank you for that.

**Senator CHRIS EVANS**—although they are more reliable, I think, than some of the other sources used and less likely to leak. Let me provide you with the information. I think this is a publicly available document. It has been tendered in the Supreme Court of Queensland and it has been on the record for some time that the Prime Minister faxed a letter from the Country Plaza International Hotel to Mrs Elson on 12 June, which was the letter that you referred to, dated 11 June. Is that right?

**Mr Grech**—That sounds correct.

**Senator CHRIS EVANS**—The copy of the letter that I have does not have a date, but it was faxed on 12 June. I am just trying to ascertain not whether you use courier pigeons but whether or not you verbally—

**Mr Metcalfe**—Our evidence is that the material would usually be conveyed physically from the department to the Prime Minister's office. How it is dealt with after that is a matter for the Prime Minister's office.

**Senator CHRIS EVANS**—That is the information that I was after, Mr Metcalfe. If we want to be smart alegs we can all play the game. As I understand it then, the briefing was provided to the Prime Minister in written format.

**Mr Grech**—Correct.

**Senator CHRIS EVANS**—And that was provided to him. There were two pieces of advice: one on 10 June and one on 11 June.

**Mr Grech**—According to my records that is correct.



**Senator CHRIS EVANS**—Was the second piece of advice prompted by further correspondence?

**Mr Grech**—I cannot give you a categorical answer on that. I assume it was. I cannot say yes definitely.

**Senator CHRIS EVANS**—It seems from the correspondence list you have given us that there was no correspondence around that date other than the correspondence of the Prime Minister of 11 June, is that right?

**Mr Grech**—That sounds correct. That is the best information I have at the moment.

**Senator CHRIS EVANS**—Thanks for that. So you provided two pieces of advice to the Prime Minister on 10 and 11 June. He wrote to Mrs Elson, the member for Forde, on 11 June. It seems that it was faxed on 12 June. It indicated that he was inclined to support the provision of a Commonwealth loan. Are you able to tell me where that loan was to be sourced from?

**Mr Grech**—No, I cannot.

**Senator CHRIS EVANS**—Does that mean that we do not know where the loan was to be sourced from or that you just do not know?

**Mr Grech**—I do not have those details.

**Senator Hill**—Are we into the content of the letter now?

**Senator CHRIS EVANS**—I am happy to make a copy of the letter available to the officer if that would help.

**Senator Hill**—But what do you want to know? If you have a letter, you can table it—you can do what you like with it—but what do you want to know from the officer?

**Senator CHRIS EVANS**—The officer has indicated that PM&C provided advice to the Prime Minister around this date in the lead-up to his writing to Ms Elson. I quote the Prime Minister's letter. He said, 'Therefore, while I am inclined to support the provision of a \$400,000 Commonwealth loan, this support is conditional on the project obtaining funds of at least \$800,000 from the Queensland state government and/or other sources.' That is not the full letter but that is the bit I was referring to. I was asking whether or not the officer was aware where that loan would be funded from.

**Senator Hill**—Where the loan would be funded from?

**Mr Grech**—I do not know. This is a hypothetical response because, as I indicated at the outset, the government did not provide a loan. After a lengthy process, considering a lot of issues, the ultimate decision was, in partnership with the Queensland state government and the shire of Beaudesert, to provide a grant to maximise the viability of the project. I think I have made that clear. But to try to answer your question in a hypothetical way, there have been loan arrangements that this and previous governments have entered into, and some of them were sourced from basically consolidated revenue. We have provided loans to PNG. We have provided loans to other countries as part of a development aid package.

**Senator Hill**—Also, if this was a letter from the Prime Minister, it is pretty hard for the official therefore to answer in terms of the Prime Minister's intention as it goes beyond the

content of the letter. If you want to know what the Prime Minister's intention was in relation to a funding source I think you should ask the Prime Minister.

**Senator CHRIS EVANS**—Perhaps you could take it on notice for me, as you have represented the Prime Minister at these hearings, Senator Hill.

**Senator Hill**—I can do that.

**Senator CHRIS EVANS**—I would like to know what the intended revenue source was when the Prime Minister made the offer of this loan, which obviously was a public offer that Ms Elson conveyed to the Beaudesert Rail organisation. Ms Elson referred to it as the Prime Minister's 'discretionary fund' in minutes of the Beaudesert management committee. We later know that it came out of the Regional Partnerships program funding but as a grant and not a loan. I am trying to ascertain where this offer of a loan from the Prime Minister was to be funded from. If you can take that on notice, I would appreciate that.

**Senator HILL**—Yes.

**Senator CHRIS EVANS**—The next piece of advice you provided to the Prime Minister was on 4 November 2003, according to your evidence, Mr Grech. Is that correct?

**Mr Grech**—It is correct.

**Senator CHRIS EVANS**—I want to check that I got this right: looking at the correspondence chronology you provided me, I do not see any correspondence around the date of 4 November to or from the Prime Minister. Have I got that wrong, or is that correct?

**Mr Grech**—It is not in my chronology. I would like to clarify something with respect to the exchange you and I had just before the morning tea break, because I checked something with colleagues. The correspondence from the Prime Minister to the Deputy Prime Minister on 20 February 2004 was the Prime Minister agreeing to the Deputy Prime Minister's request that the Deputy Prime Minister's Regional Partnerships program be reimbursed for the size of the grant, which as I think you have indicated is about \$600,000, in the 2004-05 budget. This is an important point because the decision maker with respect to the provision of the grant was not the Prime Minister but the Deputy Prime Minister in his capacity as the relevant minister with portfolio responsibility for the Regional Partnerships program. The correspondence of 11 December 2003 from the Deputy Prime Minister to the Prime Minister provides the clearest indication of the decision that the Deputy PM had taken with respect to the grant, but as to when he actually took that decision we do not know. That is something, as I indicated earlier, that our colleagues in the department of transport may be able to help you with.

**Senator CHRIS EVANS**—That is why I tried to help you by telling you.

**Mr Grech**—I think that is an important point of clarification.

**Senator CHRIS EVANS**—I think it is. I think, Mr Grech, that is quite different evidence from what you gave before morning tea.

**Mr Metcalfe**—Is more detailed, I think.

**Senator CHRIS EVANS**—I think it is quite different, but I do not want to argue the point. We were told before morning tea that the PM made the decision, and we are now told that the Deputy Prime Minister—

**Senator Hill**—No, you were not told that.

**Mr Metcalfe**—We can check the record.

**Senator CHRIS EVANS**—I am happy to show you the *Hansard*.

**Senator Hill**—I think you said the Prime Minister.

**Senator CHRIS EVANS**—I was at pains to explore that issue, because it seemed to me highly unusual. The evidence of the officer was that the Prime Minister ticked off on it—I think that was the phrase that was used. That is what I have written down.

**Mr Metcalfe**—I do not think the impression that should have been given was that the Prime Minister made the decision. I think our evidence has been that the Deputy Prime Minister made the decision because the program is within his portfolio responsibility. The words ‘ticked off’ would probably indicate ‘noted’. We now have evidence from the responsible officer that in fact the decision was made by the Deputy Prime Minister and that the subsequent February correspondence related to overall budget funding for the program.

**Senator CHRIS EVANS**—That is a quite different matter that was not alluded to earlier. I appreciate the record being straightened, but that is quite different evidence.

**Senator Hill**—No, that is an additional piece of information. I do not recall it ever being said on this side of the table that the Prime Minister made the decision. I think it was asserted on your side of the table.

**Senator CHRIS EVANS**—I have recorded the—

**Senator Hill**—If it had been said, I would have been surprised by that.

**Senator CHRIS EVANS**—I was surprised, and that is why I pursued the matter. Anyway, the *Hansard* will reflect what the *Hansard* reflects.

**Mr Metcalfe**—We are now quite clear.

**CHAIR**—Mr Grech’s evidence is consistent with what he said earlier, just more detailed.

**Senator CHRIS EVANS**—That is a judgment that I do not share. It is up to you, Mr Chairman, to draw that conclusion but it seems to me quite different. But we will deal with what we are now dealing with. It seems to me that you are now saying, Mr Grech, that Mr Anderson basically wrote to the Prime Minister in December 2003 seeking to have his regional grants program—I know that is not the right title; I keep wanting to call it ‘regional rorts’ so I am trying to be good and to use the proper title—

**Mr Grech**—Regional Partnerships.

**Senator CHRIS EVANS**—The Regional Partnerships program.

**Mr Metcalfe**—This indeed was a partnership between the Commonwealth government, the Queensland government and the local shire, wasn’t it?

**Mr Grech**—That is right.

**Senator FAULKNER**—It was a roort.

**Mr Metcalfe**—It was a partnership.

**Senator CHRIS EVANS**—I was not seeking a commentary; I was seeking the official title so I did not get it wrong.

**Mr Metcalfe**—I was just explaining why the word ‘partnership’ was an important word.

**Senator CHRIS EVANS**—What have we agreed that the program was called?

**Mr Metcalfe**—Regional Partnerships. I was just pointing out—

**Senator CHRIS EVANS**—I know what you were doing.

**Mr Metcalfe**—that this was in fact a partnership between the Queensland government, the Commonwealth government and the local shire.

**Senator CHRIS EVANS**—Certainly. Returning to the question, the Deputy Prime Minister wrote to the Prime Minister on 11 December 2003 seeking to have the Regional Partnerships program reimbursed for the cost of the grant to Beaudesert Rail. Is that fair?

**Mr Grech**—That is correct.

**Senator CHRIS EVANS**—So he sought to have the \$600,000 that had been paid to Beaudesert Rail reimbursed in the 2004-05 year to the Regional Partnerships program.

**Mr Grech**—Supplementation.

**Senator CHRIS EVANS**—Supplementation. Did that occur?

**Mr Grech**—I understand that it did.

**Senator CHRIS EVANS**—So the Prime Minister on 20 February wrote to the Deputy Prime Minister saying that he would supplement the Regional Partnerships program to the tune of \$600,000 in the following financial year.

**Mr Grech**—In the 2004-05 budget.

**Senator CHRIS EVANS**—So, in addition to what was to be allocated towards the Regional Partnerships program in 2004-05, there would be an additional \$600,000?

**Mr Grech**—That is my understanding.

**Senator CHRIS EVANS**—And it is your evidence that that in fact occurred?

**Mr Grech**—That is my understanding. I do not have the 2004-05 budget papers but that is my understanding. The PM certainly gave his approval for supplementation, so I assume it happened in the 2004-05 budget process.

**Senator CHRIS EVANS**—So it is fair to conclude, therefore, that the Deputy Prime Minister had previously approved the grant to Beaudesert Rail prior to that exchange of correspondence with the Prime Minister?

**Mr Grech**—Yes.

**Senator CHRIS EVANS**—Do we know when the grant was paid?

**Mr Grech**—I do not have that information.

**Mr Metcalfe**—The Department of Transport and Regional Services would have that.

**Senator CHRIS EVANS**—I am sure I can seek it. I was wondering if you knew so that we could get the chronology right. So in fact the correspondence in late 2003 was nothing to do with the decision to make the grant; it was merely a question of a discussion between the Deputy PM and the PM about how it was going to be funded.

**Mr Grech**—Did you say late 2003?

**Senator CHRIS EVANS**—Yes.

**Mr Grech**—That is my understanding.

**Senator CARR**—It took a long time to find that out.

**Senator CHRIS EVANS**—We got off on the wrong track. Can I go back to the briefing on 4 November 2003? That was provided in writing to the Prime Minister?

**Mr Grech**—Yes.

**Senator CHRIS EVANS**—Was there a meeting between the Deputy Prime Minister and the Prime Minister to discuss the matter?

**Senator Hill**—That is not an appropriate question for the department.

**Mr Grech**—I am not aware of any meeting.

**Senator CHRIS EVANS**—The department did not provide note takers for the meeting?

**Mr Grech**—No.

**Senator CHRIS EVANS**—Did the department provide any follow-up implementation following that briefing?

**Mr Grech**—We are not responsible for the program, so any implementation was done by my colleagues in the department of transport.

**Senator CHRIS EVANS**—Yes, except that we now know that the PM actually organised to pay for it.

**Mr Grech**—I beg your pardon?

**Senator CHRIS EVANS**—We now know that the PM organised to pay for it.

**Mr Grech**—I do not know what you mean.

**Senator CHRIS EVANS**—He organised to reimburse the Deputy Prime Minister the \$600,000, so the PM picked up the tab.

**Mr Grech**—That was a budget matter.

**Mr Metcalfe**—There was a budget decision to supplement the program.

**Senator CHRIS EVANS**—Yes, it was made by the Prime Minister.

**Mr Metcalfe**—As we saw earlier, that is—

**Senator Hill**—I thought there was a doubt a minute ago.

**Mr Grech**—The decision to commit the grant to the project was one for the Deputy Prime Minister in his capacity as the portfolio minister responsible for the Regional Partnerships program. He is not alone in doing this, but as minister he sought—

**Senator Hill**—Supplementation. That was agreed to.

**Mr Grech**—supplementation as part of the normal budget process in 2004-05 for his program. In many respects it is a separate matter. It is really just a budget matter. It is not a decision to commit funds to a particular project—it is a decision to supplement an overall program.

**Senator CHRIS EVANS**—Is that your opinion or is that evidence you are giving us?

**Mr Grech**—That is an answer to a question relating to process. I cannot be more helpful.

**Senator Hill**—This is not a chat show, What specifically is the question?

**Senator CHRIS EVANS**—I do not know: Mr Grech was giving an explanation. I do not know what it was in response to, to be honest.

**Senator Hill**—We are now awaiting the next question.

**Senator CHRIS EVANS**—We will ask the next question; I was not quite sure what that was all about.

**Senator Hill**—I was not either; that is why I thought we ought to get back to the question.

**Senator CHRIS EVANS**—That is right. So as far as we know, Mr Grech, there was no further activity undertaken or advice provided by the department to the Prime Minister after the advice provided for 4 November?

**Mr Grech**—That is correct.

**Senator CHRIS EVANS**—Can you tell us what triggered the provision of that advice?

**Senator Hill**—What advice?

**Senator CHRIS EVANS**—On the advice provided by PM&C to the Prime Minister, was it a request by the Prime Minister for advice? Was it in response to correspondence?

**Mr Grech**—I do not have that information.

**Senator CHRIS EVANS**—So we do not know why you provided advice to the Prime Minister on 4 November 2003? And we do not have any record of correspondence around that period that would have caused that advice to be given. Do you know whether the Prime Minister attended a meeting on 4 November or 5 November to discuss Beaudesert?

**Mr Grech**—No, I do not.

**Senator CHRIS EVANS**—You do not know. Can you take that on notice for me?

**Senator Hill**—You want me to ask the Prime Minister whether he attended a meeting on 4 November—

**Senator CHRIS EVANS**—Or 5 November, regarding Beaudesert Rail.

**Senator Hill**—I will ask that. I think he will probably come back and say—

**Senator FAULKNER**—And cover up.

**Senator Hill**—That it is his business.

**Senator CHRIS EVANS**—He is obviously concerned enough to write to Mr Beazley twice on the matter, so obviously he thinks it is important the public understand what happened.

**Senator Hill**—He might come back and give you a different answer. He might believe that as he has written to Mr Beazley on all these matters this is a bit of a waste of time.

**Senator CHRIS EVANS**—He might believe that in relation to children overboard, Cornelia Rau and all the others as well.

**CHAIR**—Spare us!

**Senator CHRIS EVANS**—So you will take that, Minister?

**Senator Hill**—I will refer that to the Prime Minister.

**Senator CHRIS EVANS**—Thank you for that. That would be very helpful. I will not hold my breath, but we will look forward to it. Mr Grech, can you tell us if any assessment by PM&C occurred about the viability or otherwise of the Beaudesert Rail project?

**Mr Grech**—The department is a policy advice department. It utilises its expertise to assess policy options all the time. We do basic economic cost-benefit analysis.

**Senator Hill**—The officer has already said that advice was given by the department on the matter.

**Senator CHRIS EVANS**—Yes, I was asking whether the question of the viability or otherwise of the Beaudesert Rail was posted?

**Mr Metcalfe**—That goes to the issue of content of advice, and we cannot really go there.

**Senator CHRIS EVANS**—Does PM&C have a copy of the guidelines relating to the Regional Partnerships program?

**Mr Grech**—I imagine that it is on the file.

**Senator CHRIS EVANS**—You would be aware of the criteria that would have to be applied for grants and loans and so on?

**Mr Grech**—Yes.

**Senator CHRIS EVANS**—You would have been aware that a loan was not possible under the Regional Partnerships program?

**Senator Hill**—The officer has said he believed that the guidance was on file. You can ask him a separate question, I suppose, on whether he knows the detail of those guidelines. Do you know the detail of the guidelines, Mr Grech?

**Mr Grech**—No.

**Senator Hill**—The answer is no—he does not.

**Senator CHRIS EVANS**—That is why I tried to phrase it in the way I did. I think Mr Grech gave earlier evidence that he was not actually in that role at the relevant time.

**Senator Hill**—That is right.

**Senator CHRIS EVANS**—Therefore, I did not ask him for his personal opinion; I am asking for the response of the department. The officers at the table are representing the department. I think this is the discussion that we had yesterday.

**Senator Hill**—You asked him whether they had a copy of the guidelines and he said he assumed they did. Do you want him to go back and check whether they did?

**Senator CHRIS EVANS**—Perhaps, given the way we have been going, it might be better if I got a definitive and considered answer.

**Senator Hill**—Can we make an inquiry as to whether PM&C had a copy of the guidelines, Mr Metcalfe?

**Mr Metcalfe**—We can make those inquiries.

**Senator CHRIS EVANS**—Could you also check whether or not those program guidelines allow the awarding of loans or whether they have to be grants?

**Mr Metcalfe**—I think that, on a simple reading of that, it would be apparent.

**Senator Hill**—That concerns an interpretation of the guidelines, which is really not a question for this officer.

**Senator CHRIS EVANS**—Doesn't it go to your knowledge of the program? I am not sure what the guidelines were at that particular time. It is an honest question.

**Mr Metcalfe**—The guidelines were administered by the Department of Transport and Regional Services.

**Senator Hill**—It is more appropriate that this is put to the department that administered the program.

**Senator CHRIS EVANS**—The question was whether or not the PM's department knew what they were.

**Senator Hill**—You have asked the question and the official has said that he does not know whether they had a copy of the guidelines. He is going to check.

**Senator CHRIS EVANS**—Maybe the official would like to table those when he is able to. He can take on notice the tabling of those guidelines. Then we can all have a look and check.

**Senator Hill**—We note that you have asked for them to be tabled. If we can locate a copy in the department, we will consider whether we can table it.

**Senator CARR**—At what point did the department establish that the Beaudesert railway was in liquidation?

**Senator Hill**—Do you know the answer to that, Mr Grech?

**Mr Grech**—I do not.

**Senator Hill**—He does not know the answer.

**Senator CARR**—Was the financial position of Beaudesert Rail apparent to the department at the time advice was tendered on the application for a grant?

**Mr Grech**—I do not have an answer to that question. I do not know.



**Senator CARR**—Could you take that a notice?

**Mr Grech**—Sure.

**Senator CARR**—How often have you been involved with programs where grants have been offered to entities that were actually facing liquidation?

**Mr Grech**—Is that a personal question?

**Senator Hill**—It is a silly question.

**Senator CARR**—It is a question for the department.

**Mr Metcalfe**—I do not know how we would even start to provide an answer to that question.

**Senator Hill**—No, it is a nonsense.

**Senator CARR**—That is the essential question here.

**Senator Hill**—You have asked whether the department was aware of the financial status of this organisation at the time of the application. That is a legitimate question to ask. We will try and get an answer.

**Mr Metcalfe**—That is quite a specific matter that we can check, but the broad question that you asked would be impossible to answer, I suspect.

**Senator CHRIS EVANS**—Can the officer tell me whether DOTARS provided information on Beaudesert Rail to PM&C?

**Mr Grech**—I would have to check. Again, this is hypothetical. In the normal course of business, we engage with a number of departments across government. It may have happened on this occasion with DOTARS or it may not have. I do not have a specific answer.

**Senator CHRIS EVANS**—Perhaps you could take on notice for me whether or not DOTARS provided a briefing to PM&C on Beaudesert Rail—whether they provided you with advice about the Beaudesert rail project and on what occasions they provided you with that advice. Certainly, from what is on the public record, they seem to have had serious concerns about the viability of Beaudesert Rail. I would like to understand whether or not PM&C was made aware of those concerns.

**Mr Metcalfe**—We will check that fact.

**Senator CARR**—Could you also establish whether or not the department was aware that the Department of Transport and Regional Services had recommended against providing additional assistance.

**Mr Grech**—I am happy to check that for you.

**Senator CARR**—Were you aware that the Department of Transport and Regional Services had written to the professional liquidator, raising concerns about the project's viability?

**Senator Hill**—Was the department aware of that fact at the time it was giving advice? That is a legitimate question.

**Mr Metcalfe**—We will check that fact.

**Senator CHRIS EVANS**—Can you also check whether or not the Prime Minister's office or the Prime Minister received any correspondence from Beaudesert Shire Railway Support Group Inc.

**Senator Hill**—I do not know that you can check correspondence with the Prime Minister through a third party.

**Senator CHRIS EVANS**—I am just looking for completion. We have discussed the correspondence flow between the Deputy Prime Minister and Mrs Elson.

**Senator Hill**—If you want to ask the question, you ask it of the Prime Minister; you do not ask it of the department.

**Senator CHRIS EVANS**—I am trying to think through the distinction—whether you take it on notice or the department takes it on notice. I suppose I could ask: did the department correspond directly—

**Senator Hill**—A legitimate question might be: 'Did the department give advice to the Prime Minister in relation to any correspondence from this organisation?'

**Senator CHRIS EVANS**—The department has given evidence about its other correspondence on this matter. For completion of the correspondence flow, I was just trying to complete the loop by finding out whether there was correspondence between the Prime Minister's office, PM&C or the parliamentary secretary and Beaudesert Shire Railway Support Group Inc.

**Senator Hill**—You can ask the Prime Minister if he received correspondence from a third party. You can ask the department whether it gave advice to the Prime Minister in relation to any correspondence from a third party.

**Senator CHRIS EVANS**—I will ask both, if it makes you happy. I presume both will be taken on notice.

**Senator Hill**—Okay.

**Senator CARR**—Was the department aware that on 29 October 2003 Beaudesert Rail had written to the Department of Transport and Regional Services downgrading its forecast profit by 75 per cent?

**Mr Grech**—I am not aware of that.

**Senator CARR**—Are you able to provide the committee with advice on what you did know about the financial status of Beaudesert Rail?

**Mr Grech**—I see that as an internal working matter for PM&C. I am not sure I can answer the question.

**Senator CARR**—It is if you are advising the government on the granting of \$660,000 to an organisation that is in liquidation.

**Mr Metcalfe**—We made it clear that we cannot go to the content of the advice.

**Senator CARR**—But it does trouble me that the Department of Transport and Regional Services is advising the liquidators that they cannot set a precedent for the Australian

government funding of payments to creditors on an enterprise that is in financial difficulty and, at the same time, Prime Minister and Cabinet is providing advice that you can.

**Mr Grech**—No, I did not say that—

**Senator Hill**—We have not said that.

**Mr Metcalfe**—You are speculating as to what the advice might have been. We can simply tell you whether or not we provided advice. We cannot go in the negative or the positive to what that advice might have conveyed.

**Senator CARR**—That is the circumstance here, is it?

**Senator Hill**—I think it is reasonable to inquire as to the knowledge base upon which a department was giving advice, and we have taken on notice the question as to whether the matters regarding the financial status of this organisation had been drawn to the attention of this department by DOTARS.

**Senator CARR**—And the extent to which the department was in command of the facts in regard to a decision.

**Senator Hill**—I do not know what the full facts are. I do not know the knowledge of DOTARS. I think a question about whether they are in full command of the facts is not a question that can be answered.

**Senator CARR**—I did not ask that. I am making the point that these questions go to the level of interdepartmental coordination.

**Senator Hill**—That is fine. We have said that we will answer the question as to whether this department had drawn to its attention by DOTARS issues of the financial viability of this organisation.

**Senator CHRIS EVANS**—Mr Grech, are you aware of any other sustentation made to the Regional Partnerships program or was this the only instance on which the Deputy Prime Minister was reimbursed for a grant made under that program?

**Mr Metcalfe**—We have not used those words.

**Senator Hill**—But any supplementation that is made is on the public record.

**Senator CHRIS EVANS**—I am not sure that the sustentation will actually describe the purpose for which the additional money was provided. I think you will find it is new material, in the sense that I was certainly not aware that that had occurred beforehand, and before morning tea no-one else in this room was aware of it, so—

**Senator Hill**—It might or it might not be evident through the papers relating to supplementation.

**Senator CHRIS EVANS**—Except I have not checked yet because I was not aware of this until after morning tea, when Mr Grech came in and told us that it had been the subject of an agreement with the Prime Minister to pay that additional money.

**Senator Hill**—I do not think the Prime Minister pays any additional money. Presumably, what would happen is that the Prime Minister supported supplementing it. If the Prime

Minister did not support supplementation it would not be happening. But we have not even confirmed that supplementation actually took place.

**Mr Metcalfe**—We have not checked the budget documents from last year, but our understanding is that the Prime Minister approved supplementation occurring through the budget process.

**Mr Grech**—That is correct.

**Senator CHRIS EVANS**—That was your earlier evidence: you assumed that it had occurred but you were not absolutely certain.

**Mr Metcalfe**—We can all check the budget papers.

**Senator CHRIS EVANS**—Yes, but the evidence of the officer was that the Prime Minister's response to the Deputy Prime Minister was to say that it would be, and therefore we assume that that agreement was fulfilled.

**Senator Hill**—There seems to have been an assumption of that but it has not been checked.

**Senator CHRIS EVANS**—I accept that. That is why I am asking the subsequent question: I have not had a chance yet to look—

**Senator Hill**—If we do not know whether that was supplemented, I doubt if we know if there was any other supplementation.

**Mr Grech**—I do not.

**Mr Metcalfe**—You would have to go into the inner workings of the budget process last year, and I just do not know what might appear in the budget papers or not as to the overall forward estimates of the program and—

**Senator CHRIS EVANS**—That is why I was asking you what you did know, Mr Metcalfe: that is, whether the Prime Minister had signed off on any other sustention to the Deputy Prime Minister's program. If you do not know, could you take it on notice?

**Mr Metcalfe**—We will take that on notice.

**Senator CHRIS EVANS**—Thank you very much.

**Mr Metcalfe**—There are a couple of comebacks I have. Senator Carr asked last night about the appointment of Mr Hannaford to the Australian Crime Commission: whether there was any advice to the Prime Minister and the date of the advice. My understanding is the Attorney-General wrote to the Prime Minister in late 2003. That matter was considered by the cabinet in the usual way. The department provided advice in the usual way to the Prime Minister in anticipation of the cabinet decision, and the appointment was considered by the Federal Executive Council on 18 December 2003.

**CHAIR**—Thank you, Mr Metcalfe.

**Senator CHRIS EVANS**—Senator Carr did not ask that question.

**Mr Metcalfe**—Sorry. I had it recorded as Senator Carr, but it might have been Senator Evans.

**Senator CHRIS EVANS**—Since I shaved the beard off it happens less often, but it has always been a problem! Just to be clear, do you know the title of the position that Mr Hannaford was appointed to?

**Mr Metcalfe**—No, I was simply advised that it was to the Australian Crime Commission—but I can probably check.

**Senator CHRIS EVANS**—No, I know it is not your thing.

**Mr Metcalfe**—The Attorney-General's Department would be the right people to ask.

**Senator CHRIS EVANS**—I know they advertised for a commissioner at one stage, but I understand he was not appointed to that position.

**Mr Metcalfe**—No. I have just seen a media release issued by Senator Ellison—E193/03—which indicates that Mr Hannaford was appointed as an examiner.

**Senator CHRIS EVANS**—An examiner?

**Mr Metcalfe**—Which is a position provided for, it appears, in section 46B of the Australian Crime Commission Act 2002.

**Senator CHRIS EVANS**—Do you know whether those appointments normally go to cabinet?

**Mr Metcalfe**—Statutory office holders are normally considered by cabinet.

**Senator CHRIS EVANS**—And is the examiner a statutory office holder?

**Mr Metcalfe**—It is; it is an appointment by the Governor-General in Council.

**Senator CHRIS EVANS**—I knew there was this position of commissioner and I knew Mr Hannaford has gone into something that was not quite that.

**Mr Metcalfe**—That is correct.

**Senator CHRIS EVANS**—Is it fair to say that 'examiner' is a slightly less senior position?

**Mr Metcalfe**—Senator Ellison's media release indicates:

Under the ACC Act 2002, examiners are independent statutory officers who exercise the principal coercive powers under the legislation for the purpose of a specific ACC intelligence operation or investigation.

**Senator CHRIS EVANS**—In late 2003, the Attorney-General wrote to the Prime Minister?

**Mr Metcalfe**—That is correct.

**Senator CHRIS EVANS**—Seeking to appoint Mr Hannaford—is that fair?

**Mr Metcalfe**—That is my understanding. I do not have the correspondence with me, but that is what I am advised. That was considered by cabinet in the usual way.

**Senator CHRIS EVANS**—Is that the extent of the PM&C involvement?

**Mr Metcalfe**—That is my understanding.

**Senator CHRIS EVANS**—Is it usual that one writes to the Prime Minister first? Or is it just a cabinet submission job?

**Mr Metcalfe**—No, the usual way is that a portfolio minister would correspond with the Prime Minister, seeking that the appointment be considered by cabinet.

**Senator CHRIS EVANS**—That was made by the Attorney-General, Mr Ruddock, was it?

**Mr Metcalfe**—That is correct.

**Senator CHRIS EVANS**—Senator Ellison then made the press release because it is actually in his subset?

**Mr Metcalfe**—I think he has responsibility for the Crime Commission under his portfolio.

**Senator CHRIS EVANS**—Do you know whether they appointed a Crime Commissioner at the same time?

**Mr Metcalfe**—No, the media release indicates that Mr Tim Sage and Mr John Hannaford had been appointed as examiners for five years. There is no information in that media release about the appointment of a commissioner.

**Senator CHRIS EVANS**—Sorry, I did not mean to examine you about another minister's media release; I was just trying to get a sense of it. I know it is not fair to ask you to explain Senator Ellison's media releases. I will leave it at that.

**Mr Metcalfe**—Thank you.

**Senator CHRIS EVANS**—What about the immigration matters?

**Mr Metcalfe**—Yes, we can probably deal with that. There was one other minor matter, and that was the issue of Mr Slipper and his period as an acting Parliamentary Secretary to the Prime Minister. If you like, I can provide the dates on that.

**CHAIR**—Thank you, Mr Metcalfe.

**Mr Metcalfe**—I am advised that Mr Slipper assumed duties as Acting Parliamentary Secretary to the Prime Minister on 14 March 2002. The appointment ceased when a new ministry was sworn in on 7 October 2003.

**Senator CHRIS EVANS**—So he acted for a long period?

**Mr Metcalfe**—About a year.

**Senator CHRIS EVANS**—Did you say September 2003?

**Mr Metcalfe**—2002.

**Senator CHRIS EVANS**—Sorry, so from 14 March to September 2002?

**Mr Metcalfe**—From 14 March 2002 to 7 October 2003.

**Senator CHRIS EVANS**—So it is more like 18 months. You threw me when you said about a year, because I thought it sounded like a lot longer.

**Mr Metcalfe**—Sorry, I didn't have the dates fixed in my head.

**Senator CHRIS EVANS**—I thought I had written the dates down wrongly. Thank you for that.

**Mr Metcalfe**—We can come back to the issue of Ms Rau that you raised last night.

**Ms Davidson**—You asked whether PM&C had had any involvement in the establishment of the Rau inquiry. I indicated that I did not think that that was the case, but I wanted to check. I have checked. We were not aware of the establishment of the inquiry until Monday, 7 February.

**Senator CHRIS EVANS**—How did you come to know of it?

**Ms Davidson**—The secretary of the immigration department advised us, but by that stage the day before the Prime Minister had been on the *Sunday* show I think it was, so we were aware of it via the media before we were officially advised.

**Senator CHRIS EVANS**—You were officially advised by whom on Monday, 7 February?

**Ms Davidson**—The secretary of the immigration department.

**Senator CHRIS EVANS**—But obviously the Prime Minister had made public the inquiry on the previous day on the *Sunday* program, on 6 February?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—I take it therefore that the department did not brief him on these matters prior to that.

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—That is what I was trying to get to yesterday. I thought you would have briefed him, but obviously he had received his briefing from the minister for immigration and her department. So you did not provide any advice to the Prime Minister on the question of the inquiry prior to 6 February?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—What has been your involvement since then?

**Ms Davidson**—There was some advice sought about who possibly could head that inquiry. Senator Vanstone announced details of the inquiry and who was going to head it and the terms of the reference on 8 February. There were some discussions with us about who might head it. I also understand that, after Senator Vanstone's announcement, Government Division had some contact from the Prime Minister's office about powers and protections for an administrative inquiry.

**Senator CHRIS EVANS**—Did you provide any informal advice about the structure and/or personnel to head the inquiry? It was a very short time frame between the Prime Minister's remarks on the 6th and the details being released on the 8th. Did the department provide advice to the Prime Minister?

**Ms Davidson**—No.

**Senator CHRIS EVANS**—So the contact was between officials from Immigration and PM&C?

**Ms Davidson**—That is correct. The minister for immigration and the immigration department were taking the main running on setting up the inquiry.

**Senator CHRIS EVANS**—Did you provide a list of names of potential persons to head the inquiry?

**Ms Davidson**—I do not believe so. The conversation about possible names took place between our secretary and the secretary of the immigration department. I was not asked for any names and I am not sure of the nature of that discussion between the secretaries.

**Senator CHRIS EVANS**—So there was not a shortlist provided between the departments for people to be approached? It was just a discussion between the two secretaries?

**Ms Davidson**—That is the only record we have, yes.

**Senator CHRIS EVANS**—Is there a record of the secretary to PM&C suggesting someone?

**Ms Davidson**—No. There is a record of discussions about names but not a direct suggestion from his notes.

**Senator CHRIS EVANS**—What other involvement or advice has PM&C asked for? You said there was some involvement with the Government Division. That was about the powers of the inquiry, was it?

**Ms Davidson**—That is right. It was advice sought by the Prime Minister's office that they provided. If you wanted any detail I would need to get them to come to the table.

**Senator CHRIS EVANS**—That might be useful. I just wanted to pursue this: the Government Division provided advice to the Prime Minister—

**Ms Davidson**—To the Prime Minister's office.

**Senator CHRIS EVANS**—To the Prime Minister's office regarding the powers and—what was the other word you used?

**Ms Davidson**—Protections, for an administrative inquiry.

**Senator CHRIS EVANS**—Did you provide that advice to the immigration department as well?

**Ms Davidson**—I would need to get Alex Anderson to come to the table on that.

**Senator CHRIS EVANS**—Mr Anderson, can you tell us to whom you provided advice and on what matters? This is on the questions of the powers of the inquiry and the protections, I presume, to the witnesses who might appear before it.

**Mr Anderson**—I do not have anything I can add to what Ms Davidson has said. Advice about powers and protections was provided to the Prime Minister's office.

**Senator CHRIS EVANS**—Was that at the request of the Prime Minister's office?

**Mr Anderson**—Yes, it was.

**Senator CHRIS EVANS**—On what date did you provide that?

**Mr Anderson**—On 9 February.

**Senator CHRIS EVANS**—On 9 February? So that was the day after they had announced it?

**Mr Anderson**—Correct.

**Senator CHRIS EVANS**—Do you think the advice was helpful?



**Mr Metcalfe**—We cannot speculate on that. We think all our advice is helpful.

**Senator Hill**—I hope so!

**Mr Metcalfe**—It is one of our performance indicators!

**Senator CHRIS EVANS**—As to whether the advice you provided the day after it was announced was helpful?

**Mr Metcalfe**—There is always advice that is helpful.

**Senator CHRIS EVANS**—Sorry, Mr Anderson, I was not meaning to be rude. I was just a bit surprised at the timing.

**Mr Metcalfe**—We can just provide you with the dates.

**Senator CHRIS EVANS**—I appreciate that. I am not having a go at the officer. I was just a bit taken aback. You did not provide any advice before the advice that was provided on 9 February?

**Mr Anderson**—No. That is correct, as Ms Davidson said.

**Senator CHRIS EVANS**—On 9 February you provided what? Written advice?

**Mr Anderson**—That is correct.

**Senator CHRIS EVANS**—And that went to the Prime Minister's office. Did that also go to Immigration?

**Mr Anderson**—I am not able to comment on what the Prime Minister's office may have done with the advice.

**Senator CHRIS EVANS**—No. I was not asking you that.

**Senator Hill**—Did you send advice to Immigration?

**Mr Metcalfe**—We just gave the advice to the Prime Minister's office.

**Senator CHRIS EVANS**—I was not trying to ask the officer what happened after that. I was just trying to check to see whether or not you had actually cc'd it to Immigration as part of the process. But the answer is no.

**Mr Anderson**—That is right; the answer is no.

**Senator CHRIS EVANS**—The advice went to the question of the powers of an admin inquiry. Is that right?

**Mr Metcalfe**—I think we have already said that, Senator.

**Senator CHRIS EVANS**—Sorry, again I am not trying to get the advice; I am just trying to get a sense of it. This is legal advice? Would it be fair to describe it as that?

**Mr Metcalfe**—Mr Anderson is a lawyer and is head of the Legal and Culture Branch, so policy advice on a legal issue is how I would describe it.

**Senator CHRIS EVANS**—I was going to say that my wife is also a lawyer and she gives me all sorts of advice that I do not think qualifies as legal advice!

**Mr Metcalfe**—Join the club!

**Senator CHRIS EVANS**—I am just trying to understand the nature of the advice given.

**Mr Metcalfe**—I think we have described it as ‘helpful advice’.

**Senator CHRIS EVANS**—Helpful advice—as always.

**Senator CARR**—Your wife may not regard your comments as helpful advice!

**Senator CHRIS EVANS**—Make sure she never reads the *Hansard*!

**Senator FAULKNER**—Very few do!

**Senator CHRIS EVANS**—So it is best described as policy advice rather than legal advice. Is that fair?

**Mr Metcalfe**—That is correct.

**Senator CHRIS EVANS**—Has the department provided any subsequent advice on these matters?

**Ms Davidson**—To the Prime Minister.

**Senator CHRIS EVANS**—I presume that is where most of your advice goes.

**Ms Davidson**—We recently briefed him on where the Palmer inquiry was up to.

**Senator CHRIS EVANS**—I am sorry, I will go back a step then. Did you provide any further advice following the 9 February advice on the question of the Rau inquiry and related matters, or was the next piece of advice the advice you just referred to as to the Palmer inquiry?

**Ms Davidson**—The only other involvement we had was not advice to the Prime Minister but we did see a draft newspaper advertisement that invited submissions to the inquiry, which included the terms of reference of the inquiry. We saw that, so we were asked for our views on that draft.

**Senator CHRIS EVANS**—Had the terms of reference already been announced or were they—

**Ms Davidson**—That is right. They were announced by Senator Vanstone on 8 February.

**Senator CHRIS EVANS**—Yes; that is my recollection.

**Ms Davidson**—When there are going to be advertisements, our area that looks after advertisements sometimes asks my division, if it is a matter that relates our area, if we want to have a look at the material before it is published.

**Senator CHRIS EVANS**—But the substantive issues—that is, the terms of reference—had already been determined.

**Mr Metcalfe**—It is a pretty routine call for submissions.

**Senator CHRIS EVANS**—It is not a substantive involvement in the terms of reference. Okay. Apart from the newspaper, your next involvement was to provide advice to the Prime Minister on the progress of the Palmer inquiry. When did you provide that?

**Ms Davidson**—On 20 May.

**Senator CHRIS EVANS**—And that was written advice to the Prime Minister?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—And you described it as a progress report—I am sorry, I am verballing you. How would you describe that advice?

**Ms Davidson**—It was advice on our understanding of where the Palmer inquiry was up to in its process.

**Senator CHRIS EVANS**—A bit of a progress report on the Palmer inquiry?

**Ms Davidson**—Not on the content, on the process.

**Senator CHRIS EVANS**—Yes, and that was on 20 May. Have you provided any advice subsequently to the Prime Minister?

**Ms Davidson**—No.

**Senator CHRIS EVANS**—Have you been involved at all with the department of immigration in discussions or exchanges of correspondence regarding these matters?

**Ms Davidson**—We have had some discussions with the department of immigration.

**Senator CHRIS EVANS**—When were they held?

**Ms Davidson**—There were discussions on 13 May.

**Senator CHRIS EVANS**—Between whom?

**Ms Davidson**—That meeting was between Dr Morauta and the two deputy secretaries from the immigration department.

**Senator CHRIS EVANS**—What was the purpose of the meeting?

**Dr Morauta**—I think we were just acquainting ourselves with the issues.

**Senator CHRIS EVANS**—So it was not a question of PM&C providing advice to the department?

**Dr Morauta**—No.

**Senator CHRIS EVANS**—Did you report to the Prime Minister the outcome of those discussions?

**Dr Morauta**—We have already advised you that we provided advice to the Prime Minister on 20 May.

**Senator CHRIS EVANS**—It is fair to assume that included any information that you thought was relevant. Is that the only contact the department has had with the department of immigration about these issues?

**Dr Morauta**—No, there are phone conversations from time to time as well.

**Senator CHRIS EVANS**—But there seems to have been a big gap between 8 February and 13 May. Have there been ongoing discussions between officers of PM&C and Immigration during that period, or is this a more recent development?

**Ms Davidson**—My understanding is that it has mostly been more recently. I do not know. Some of my junior officers could have had discussions, but my awareness is that there have been more discussions over recent weeks.

**Senator CHRIS EVANS**—So initial advice was provided on 9 February and then in more recent weeks there were some discussions with Immigration officials about issues relating to the Palmer inquiry. Is that a fair way of describing it?

**Dr Morauta**—Yes.

**Senator CHRIS EVANS**—Then on 20 May there was written advice to the Prime Minister regarding the Palmer inquiry. Have you prepared advice for cabinet?

**Ms Davidson**—No.

**Senator CHRIS EVANS**—Are the legal section still involved in these issues, or did their involvement cease following the 9 February advice?

**Ms Davidson**—No, they have not been.

**Senator CHRIS EVANS**—So it is fair to conclude that PM&C did not provide advice on the terms of reference prior to their being announced?

**Ms Davidson**—There is no record of us having provided advice on the terms of reference.

**Senator CHRIS EVANS**—But your evidence is that you provided such advice on 9 February.

**Ms Davidson**—No.

**Mr Metcalfe**—No. We talked about other things on 9 February. We did not provide advice on the terms of reference on 9 February.

**Senator CHRIS EVANS**—Sorry, you provided some policy advice.

**Mr Metcalfe**—‘Powers and protections’, I think, were the words used.

**Senator CHRIS EVANS**—That was on 9 February. But that was following the announcement of the terms of reference.

**Mr Metcalfe**—That is correct.

**Senator CHRIS EVANS**—I think that is all I need there, thanks.

**Senator CARR**—I would like to speak to the officers that deal with government communications.

**Mr Metcalfe**—I will ask Mr Taylor to come back and join us.

**Senator CARR**—That would be terrific. I have an advertisement here that I would like to give to the officer.

**Mr Metcalfe**—Can I receive a copy as well?

**Senator CARR**—Mr Taylor, do you have a copy of the advertisement which appeared in the *Weekend Australian* newspaper on 14-15 May 2005?

**Mr Taylor**—Yes, I do.

**Senator CARR**—It appeared on page 6 of the newspaper. It has a large crest on the top. It says that it is authorised by the Australian government, Capitol Hill, Canberra. Who paid for the advertisement?

**Mr Taylor**—The Department of the Treasury.

**Senator CARR**—Did the Department of the Prime Minister and Cabinet have any involvement in the placement of that advertisement?

**Mr Taylor**—Yes, the Government Communications Unit was asked to arrange for the placement of the ad.

**Senator CARR**—What was the cost of the advertisement?

**Mr Taylor**—On 14 May it was \$42,076.

**Senator CARR**—That was for the placement of the advertisement in the *Australian*. Is that right?

**Mr Taylor**—That is correct.

**Senator CARR**—Did the advertisement appear more than once?

**Mr Taylor**—Yes, my understanding is that it appeared on 7-8 May at a cost of \$60,234.

**Senator CARR**—Is the total cost of the placements for this advertisement then \$102,000?

**Mr Taylor**—No, it appeared also on 11 May, so it is a total cost of \$134,732.

**Senator CARR**—That was in the *Australian*? How many times did it appear?

**Mr Taylor**—Four times.

**Senator CARR**—Did it appear in any other newspapers?

**Mr Taylor**—Yes, it appeared on 7 May in the *Weekend Australian*, on 7 May in the *West Australian* and on 8 May in the *Sunday Times*.

**Senator CARR**—What was the cost of the *West Australian* placement?

**Mr Taylor**—The *West Australian* placement on 7 May cost \$11,878.65.

**Senator CARR**—And for the *Sunday Times* on 8 May?

**Mr Taylor**—It was \$16,507.12.

**Senator CARR**—Is that the total number of occasions this advertisement appeared?

**Mr Taylor**—I will run through the dates that we have here. It was in the *Weekend Australian* on 7 May, the *West Australian* on 7 May, the *Sunday Times* on 8 May, the *Weekend Australian* on 14 May, the *West Australian* on 14 May, the *Australian* on 11 May and the *West Australian* on 11 May.

**Senator CARR**—So that is seven times?

**Mr Taylor**—Yes, but some were on the same day.

**Senator CARR**—Yes, but it is seven separate placements?

**Mr Taylor**—Yes.

**Senator CARR**—What was the total cost of the advertisement? Presumably that would be the total cost of placements?

**Mr Taylor**—The total cost was \$134,732.

**Senator CARR**—That is for all seven occasions?

**Mr Taylor**—Just let me check that.

**Senator CARR**—I am just wondering if that makes sense. If it was \$42,000 to begin with and then there was \$60,000—

**Mr Taylor**—Maybe I should run through each of those dates and give you a cost.

**Senator CARR**—Do you have a chart there that you can give me? Would that be a lot easier all round?

**Mr Taylor**—I cannot release this chart. But I can give you those dates and amounts. What is going to confuse this is that I need to give you a figure for each of these days and then a total with GST. I will give you this: the advertisements in the *Weekend Australian* on 7 May, the *West Australian* on 7 May, the *Sunday Times* on 8 May had a total cost of \$60,234, including GST. The advertisements in the *Weekend Australian* on 14 May and the *West Australian* on 14 May had a total cost of \$42,076, including GST. The advertisements in the *Australian* on 11 May and the *West Australian* on 11 May had a total cost of \$32,422, including GST.

**Senator CARR**—So that is the total of \$134,000, is it?

**Mr Taylor**—Yes, it is: \$134,732 by my reckoning.

**Senator CARR**—Right. Does that include the costs for creative work—the cost of the development of the advertisement?

**Mr Taylor**—No. That includes the cost and the setting of it, I suppose, ready to go in. The actual drafting of it was done in the Department of the Treasury. It would have been done in house.

**Senator CARR**—So the content, the actual copy, was done by the Department of the Treasury but the costs of the creative work, the layout and the design are included in the \$134,000.

**Mr Taylor**—The layout is done by the placement agency, hma Blaze.

**Senator CARR**—How much money was paid to the placement agency?

**Mr Taylor**—That is part of an ongoing four-year contract. I could not tease that out. It is just part of the overall service provided under that contract.

**Senator CARR**—How much are they paid over a four-year period?

**Mr Taylor**—I have not got that with me. I will have to take that on notice.

**Senator CARR**—I am just trying to establish what the total costs of these advertisements was.

**Mr Taylor**—The total cost of these advertisements in terms of placement, was \$134,732. I know that they were written within Treasury; I do not know the resources that went into it.

**Senator CARR**—What are the guidelines for the placement of the authorisation on an advertisement?

**Mr Taylor**—The guidelines that we work to are the *Guidelines for Australian government information activities*, February 1995.

**Senator CARR**—And that is on the web site, is it?

**Mr Taylor**—It is.

**Senator CARR**—How does this advertisement meet the normal criteria that it should be the provision of information to the public about government programs?

**Mr Taylor**—In our view, the advertisement needs to communicate facts.

**Senator CARR**—Yes, facts. What facts did this communicate?

**Mr Taylor**—The facts that are in there, in terms of the figures. All of that is checked to ensure that it is accurate before it goes in.

**Senator CARR**—Who initiated this advertisement? It is obviously the Department of the Treasury. At what level?

**Mr Taylor**—You would have to ask the Department of Treasury but I assume—

**Senator CARR**—We will.

**Senator Hill**—I think you had better ask them.

**Senator CARR**—We will. But I would like to know, given that you are responsible for placement of this material, at what level in the Department of the Treasury the request was made.

**Mr Taylor**—I do not have the level of the officer who contacted me.

**Senator CARR**—Senator Hill, given that this is a blatant attack upon the Western Australian government—it is a clearly a party political advertisement—why isn't this bill for \$134,000 being sent to the Liberal Party?

**Senator Hill**—I do not think it is party political at all. The Commonwealth government has an interest on behalf of all Australian taxpayers to best ensure that state governments meet their part of the GST deal. What this advertisement is saying is that the Western Australian government is not doing so and it is seeking to put a bit of pressure on the WA government to do so, which would mean tax cuts for Western Australians.

**Senator FIFIELD**—We should send the bill to the Western Australian state government.

**Senator CARR**—Is that right? So the Western Australian government should pay for the attack upon it by the Commonwealth government, which is clearly political—

**Senator FIFIELD**—It is just stating their policies. They should be proud of their policies.

**Senator CARR**—I wonder where it fits within the guidelines that such an advertisement could possibly be justified.

**Senator Hill**—I have just answered the question. The Commonwealth government has a responsibility to best ensure that deals that it does with the states on taxation are honoured, because otherwise state taxpayers, in effect, end up paying double tax, which is what has happened in relation to Western Australia.

**Senator CARR**—Mr Taylor, what is the budget for the Government Communications Unit in the coming year?

**Mr Taylor**—It is \$3,540,000 and that includes overheads.

**Senator CARR**—That is just for the Department of the Prime Minister and Cabinet?

**Mr Taylor**—That is correct.

**Senator CARR**—What is the budget for government advertising across government?

**Mr Taylor**—I do not have that figure. That is a matter for each portfolio.

**Senator CARR**—You are not responsible for the coordination, across government, of government advertising?

**Mr Taylor**—No, not in terms of expenditure. We provide advice on coordination, but not in terms of—

**Mr Metcalfe**—We had quite a long discussion with Senator Murray about this yesterday.

**Senator CARR**—Indeed. Is this the only agency that can authorise the use of the Australian logo on an advertisement?

**Senator Hill**—No.

**Senator CARR**—Are you the only agency that authorises the Australian government's name to appear in an advertisement?

**Senator Hill**—No. The departments advertise for staff. We advertise for military recruits. Departments do not go to PM&C and ask for permission.

**Senator CARR**—But you authorise just the political advertising?

**Senator Hill**—It is not political advertising.

**Senator CARR**—Such as this particular ad. Is that right, Mr Taylor?

**Mr Taylor**—Could you ask that again?

**Senator CARR**—Do you authorise the political advertisements?

**Mr Taylor**—No, we do not. We authorise advertising campaigns.

**Senator CARR**—Thank you very much.

**Proceedings suspended from 12.34 pm to 1.35 pm**

**CHAIR**—I call the committee to order and welcome Senator Bishop.

**Senator MARK BISHOP**—Mr Metcalfe, today I want to talk about the letter from Minister Vale back in August 2004. On what date did PM&C receive a copy of the August 2004 letter from Minister Vale to the Turkish government?

**Mr Metcalfe**—I am certainly aware of the letter but I am not quite sure when we first might have seen that letter. We can check while we are speaking and see if we can provide you with a specific date.

**Senator MARK BISHOP**—That would be fine. Was PM&C consulted on the drafting of the letter?

**Mr Metcalfe**—No.



**Senator MARK BISHOP**—Would it be normal practice for the Minister for Veterans' Affairs, in engaging in correspondence with an international flavour, to consult with other portfolios?

**Mr Metcalfe**—I do not know if there are any particular protocols about that. There is obviously an ongoing relationship between the Department of Veterans' Affairs and the relevant ministry in Turkey. There was, I think, contact between senior ministers. In fact, I think Senator Hill may have met the Turkish minister, Mr Pepe, on Anzac Day last year.

**Senator MARK BISHOP**—He did.

**Mr Metcalfe**—It is not unusual for ministers to write to ministers in foreign governments on issues such as this, which was essentially an area of very close cooperation between the two governments.

**Senator MARK BISHOP**—That is what I would have thought. Would it also be normal for the DVA to copy that correspondence to PM&C and Foreign Affairs?

**Mr Metcalfe**—Again, I do not know if I would use the word 'normal'. On some occasions there might be copies of those letters provided; on other occasions there may not. I do not think there is any particular protocol. It would depend upon the circumstances of the particular issue.

**Senator MARK BISHOP**—While you are checking, can you check whether it was copied to PM&C and Foreign Affairs and, if it was, when? I presume it was also copied to the Australian ambassador in Turkey so that he would be informed.

**Mr Metcalfe**—I can certainly check whether PM&C received a copy and when. As far as the Department of Foreign Affairs and Trade is concerned, we can ask them but you might ask them anyway.

**Senator MARK BISHOP**—I can ask them next week, anyway. So your advice is that PM&C were not involved in the drafting of that letter in any way?

**Mr Metcalfe**—That is correct.

**Senator MARK BISHOP**—There is a reference in the letter to a conversation that Mr Philp—the former Australian ambassador—had with the Turkish Minister of Environment and Forests. Do you know when that meeting was held?

**Mr Metcalfe**—No. I have the letter in front of me and I can see what you can see, Senator—that is, that Mr Philp advised that he recently discussed with you some of the difficulties due to the increasing numbers. The letter was sent in August, so I assume it was in July or something like that, but I do not have the precise date with me.

**Mr Kemish**—I believe the conversation was held as Ambassador Philp was departing from his posting. That would have put it around the middle of the year.

**Senator MARK BISHOP**—The letter says that the minister was prepared to consider formal proposals to ease congestion, amongst other things. Do we know what the measures proposed by Mr Philp were and when they were lodged?

**Mr Kemish**—I believe those conversations were about traffic plans and the movement of people through the Gallipoli Peninsula on what is, as you know, a very congested day—25 April. So it was more about traffic plans and people movement.

**Mr Metcalfe**—The sentence at the bottom of the first page of the letter says:

He—

as in Mr Philp—

noted that you were prepared to consider formal proposals to increase the area of the commemorative site and other measures to ease congestion.

The letter then goes into some detail on ideas about how to do those things.

**Senator MARK BISHOP**—That is right. Do you have knowledge of the measures proposed by Mr Philp, or is it that, the discussion having been held, the detail would be worked out by officials at a later date?

**Mr Kemish**—I believe those discussions were very much in the territory of the sorts of proposals that are flagged in Minister Vale's letter.

**Senator MARK BISHOP**—In the attachment to the letter?

**Mr Kemish**—Yes, in the attachment. Senator, I am aware that I am speaking to someone who has some sense of what the area is like, but I advise that those proposals are almost exclusively to do with what is sometimes referred to as the Anzac commemorative site but is also referred to as the dawn service site. A point that I think sometimes gets a little lost in media discussion of this issue is that that is an entirely different location to Anzac Cove.

**Senator MARK BISHOP**—We will come to the Anzac Cove issue later on. The congestion is down on the coast on what is referred to by the media as the coast road—the access to and from both ends and leaving. The road was rebuilt and the turnaround facilities were created. That is what we are talking about.

**Mr Metcalfe**—Senator, we actually anticipated that there might be some discussion on this issue today, and we thought it might be helpful for the discussion if we provided a map that we might all work off. I know that both you and Senator Evans were at Gallipoli for Anzac Day, so the roads would be familiar. But perhaps others who have not been there might find it helpful. So we have a map that might allow us to orient ourselves in those discussions.

**CHAIR**—Have you been there, Mr Metcalfe?

**Mr Metcalfe**—I have—in fact, twice.

**Senator CHRIS EVANS**—Because of the congestion, Senator Bishop and I stormed Chunuk Bair on foot. It gave us a much better appreciation of the difficulties the Kiwis faced than if we had gone by bus.

**Mr Metcalfe**—That is quite a walk up there.

**Senator MARK BISHOP**—We did it in record time.

**Mr Metcalfe**—Did you go up Rhododendron Ridge or did you go up the road?

**Senator CHRIS EVANS**—We went up the road. You do not get an appreciation of the terrain when you go in an airconditioned bus.

**Mr Metcalfe**—As Mr Kemish was just saying, Senator Bishop, we thought that, in giving evidence to the committee this afternoon, it was important to establish right up front that the Anzac dawn service site—or the commemorative site—is actually located at North Beach, to the north of Anzac Cove. I think that site has been there for some years now. The increasing number of people meant that it was simply untenable to hold the dawn service where it was previously held; that is, at the Ari Burnu War Cemetery. As you know, a few years ago, there were some thousands attending and this year there were, I think, 16,000 or 17,000 people attending the dawn service.

**Senator CHRIS EVANS**—But the reality is that we are not talking about a great distance.

**Mr Metcalfe**—It is a few hundred yards away.

**Senator CHRIS EVANS**—Yes. When you made your earlier comments, I think Senator Bishop reacted in the sense that we accept it is not at Anzac Cove but it is really 300 yards at most away.

**Mr Metcalfe**—It is probably 300 or 400 yards from Ari Burnu headland. That is how I would describe it.

**Senator CHRIS EVANS**—It is very much in the same vicinity.

**Mr Metcalfe**—That is right.

**Senator MARK BISHOP**—It is within a very easy walking distance. It is just down the road.

**Mr Metcalfe**—That is right.

**Senator MARK BISHOP**—On page 3 of Minister Vale's letter, she says that the Australian government 'is ready to consider any solution and to assist in any way we are able to ease the traffic congestion that occurs on Anzac Day'. She refers specifically to the lengthy walking distances visitors face, which we presume concerns the Anzac Cove road. There are specific references in the attachment as well, namely the construction of bus turnaround facilities and a VIP car park at Ari Burnu. You will find that on the last page of the attachment, under the heading 'Coach Turnaround Facilities'. So is our assumption that the latter refers to the Anzac Cove road correct?

**Mr Metcalfe**—That is incorrect.

**Senator MARK BISHOP**—Why is that incorrect?

**Mr Metcalfe**—The particular problem that the minister was referring to in the penultimate paragraph of her letter was lengthy walking distances of over seven kilometres for elderly and infirm visitors attending the dawn service. The way the buses access the dawn service site after the evening of 24 April is from the north. On the map in front of you they come down from the top of the page, through villages to the north of the Anzac area. Essentially what the minister was asking for was a coach turnaround facility, probably in the area just to the north of the Anzac dawn service site, between the Commonwealth War Graves Commission maintenance area and the dawn service site—in other words, north of Anzac Cove.

The way that the official party travels to the Anzac dawn service is from the south. You would recall that, having caught the ferry across, we came in on a route that brought us past

the Gaba Tepe information centre, then we accessed the Anzac commemorative site from the south. We and the official party, which, from memory, numbered seven or eight coaches of dignitaries from Australia, New Zealand and Turkey—ambassadors, veterans and a whole lot of people—then stopped and turned around at the new car park that is just to the north of Ari Burnu Cemetery, between Ari Burnu and the Anzac commemorative site. So it is incorrect to suggest that, in saying that we wanted to ease traffic congestion because of the walking distances involved, that somehow led to the roadworks at Anzac Cove, because the way the buses come in and turn around is from the north. It is true to say that some of the bus movements after the dawn service, and to pick people up on the Lone Pine road or beyond, might cross Anzac Cove heading south, then head back up to Lone Pine.

**Senator MARK BISHOP**—Mr Metcalfe, let me respond to that point, because it is the critical point. Both last year and this year, as you would be aware, I was part of the official party, as a guest of the government. You are correct to say that that entourage of coaches came in from the south on both years.

**Mr Metcalfe**—Yes.

**Senator MARK BISHOP**—That is correct. Last year there were hundreds if not thousands of buses to the south of the site, some parked on the road and some parked for many kilometres back along the coast road heading south. This year, as we came in, there was a new, larger car park or turnaround facility that had been created to the south of the site that would have hosted some 50 or 100 buses. We saw that on the morning of the service and we saw it the day before when we went for a tour of the area. So, from my own observation, it is incorrect to say that hundreds, if not thousands of people, came into the area on buses and on foot from the south. Not only that, last year the official entourage of buses had to stop some considerable distance, 200 or 300 metres, prior to the site, and the guests had to exit and walk through the crowd to get to the official area.

There may well be entry points from the north, I do not know. I have never come in from the north. But there were certainly hundreds if not thousands of people, in both years and on the morning and on the day before, coming in from the south. This year additional turnaround facilities had been erected in the south, and I saw additional turnaround facilities erect in the north. In fact the only times I have been north of the two sites were when we attended the official functions thanks to the defence people and the vets hosting them in that facility to the north in the afternoon.

**Mr Metcalfe**—At the War Graves Commission site.

**Senator MARK BISHOP**—All my experience—last year's experience with Senator Hill and this year with Mr Beazley and Senator Evans—was coming in from the south. That is the first point. So I directly rebut the proposition that you put—that the major entry point for the crowd and the buses is from the north. It is at least also from the south.

Secondly, there was major construction work created for some 200 to 300 yards on the cliff side of the coast road which had been sheared down and which I took copious notes of prior to the entry to the sites where the services are conducted. It is my belief that that road construction, that turnaround facility creation at the south and the north, both of which are done on the coast road, are done in response to the increasing congestion which the minister

identifies and the Turkish government has identified as a fact of life; something needed to be done. But it is incorrect to say, as I understand you to be saying, that the remedial work and construction work on the road and the cliff were not directly requested by the Australian government via the correspondence of Minister Vale.

**Mr Metcalfe**—I do not want to get into a lengthy disagreement here because I do not think we are all that far apart. Just looking at the attachment to the minister's letter, it was quite clear that the coach turnaround facilities, which were the primary way of trying to deal with traffic congestion, were suggested to be established north of the Commonwealth Graves Commission maintenance areas. That is some hundreds of yards north of the Anzac commemorative site. Also, the attachment talks about a turnaround facility adjacent to Ari Burnu War Cemetery, which would similarly prove most useful in resolving traffic congestion with official vehicles. That is what we saw happen this year. This letter talked about a turnaround facility. What in fact we have seen is that a parking area has been established to the north of Ari Burnu and incidentally was also used as a turnaround facility for the official parties.

**Senator MARK BISHOP**—And to the south as well.

**Mr Metcalfe**—And there is a car park also adjacent to Beach Cemetery at the south of Anzac Cove, near Hell Spit. The Department of Veterans' Affairs, who have longer experience of this issue, will no doubt provide advice to you in due course. But it was certainly my clear understanding from discussions I have had in previous years that the vast majority of the 800 or so buses that bring people down from Istanbul, Eceabat and Canakkale access the dawn service site from the north. But you were there last year, as was Minister Hill, so I will not enter into any discussion, but I—

**Senator MARK BISHOP**—And Senator Forshaw.

**Mr Metcalfe**—There were lots of people there. What I do know, just on a plain reading of the minister's letter, is that the attachment is talking about a turnaround facility in the north, which deals with the problem of visitors walking, and it talks about a turnaround facility near Ari Burnu, which would deal with the official parties. And that is what I saw happen in practice this year, although clearly more has happened than was requested in this letter.

**Senator MARK BISHOP**—Clearly there has been major construction work at both the north and the south ends.

**Mr Metcalfe**—Yes.

**Senator MARK BISHOP**—That has involved shearing of the cliffs on the north and the south ends. It has involved road widening or construction—

**Mr Metcalfe**—'Road widening' is how I would describe it.

**Senator MARK BISHOP**—and the creation of at least two new turn-around facilities, one in the south and one in the north.

**Mr Metcalfe**—I think in reality they are car parks, but they can be used as turn-around facilities.

**Senator MARK BISHOP**—They can be; there is enough room. The Turkish government has done the construction and maintenance work at both ends. How can you draw the conclusion that the request was made only for the northern end, when it has been the practice, at least for the last two years and presumably in prior years, for the official party and at least hundreds of buses and thousands of people to enter from the south?

**Mr Metcalfe**—I think the Department of Veterans' Affairs can provide advice on what has happened in previous years. I will not go to that. I am just going by what we were talking about, which is the face of the letter and the attachment, which I think make things quite clear. This is against a broader context of the fact that the Turkish government has decided to substantially improve facilities throughout the park. I am not sure if you were at the Turkish, British and French ceremonies in the south of the park on the 24th—

**Senator MARK BISHOP**—Yes.

**Mr Metcalfe**—but we all observed that roadworks and various other things had happened in the south of the park as well. There is an extensive program of improvements, partly because of the sheer number of visitors who are attending the park—and not only for Anzac Day. I have been told by Turkish officials that on any spring or summer weekend up to 30,000 Turkish nationals will travel to the park and travel through the battlefield. It is an extraordinary number of people. However, I thought the minister's letter made it quite clear as to what we had in fact sought.

**Senator MARK BISHOP**—My reading of the minister's letter is that she is asking for remedial work to be done on the entirety of the coast road. If her concerns as to traffic flow and people congestion were confined to the north of the commemorative sites, she would have specified that in the letter. She did not do that, and I suggest that she did not specify it in the letter because, when she and other senior cabinet ministers have visited, they have all entered from the south and been aware of the people and coach congestion, because we all experienced it, and last year we were delayed by it.

**Mr Metcalfe**—I do not think that there is any doubting that there was certainly concern about safety. I had not been there previously but I have seen photographs of the road in its previous state, and it was clearly quite narrow and, from what I gather, with two-way passing traffic together with large numbers of pedestrians on foot it would have been a very unsafe place to be. So there has certainly been a general concern about safety of access, but I think that in the minister's letter it is quite apparent as to what the specific requests were. It talks about coach turn-around facilities at the north and a turn-around facility near Ari Burnu for the official party.

**Senator MARK BISHOP**—Have you confirmed your interpretation of the minister's letter with the drafter of the letter?

**Mr Metcalfe**—I have certainly had a lot of discussions with the embassy in Ankara and senior officials from Veterans' Affairs as to what was understood, and I think we all believe that what was understood was what was written down.

**Senator MARK BISHOP**—Was the letter conveyed to the embassy of Turkey in Australia under cover of a diplomatic note?

**Mr Metcalfe**—I would have to check that detail with the department of foreign affairs or the Department of Veterans' Affairs. We do not have that information.

**Mr Kemish**—We do not have that information. I do not believe that it was.

**Senator MARK BISHOP**—Could you check that?

**Mr Metcalfe**—We will check that.

**Senator MARK BISHOP**—Regardless of how the letter was transmitted, do any protocols exist applying to the public release of intergovernmental correspondence?

**Mr Metcalfe**—Essentially, whether or not correspondence is released is an issue for the government.

**Senator MARK BISHOP**—So was the decision made by the minister or someone else?

**Mr Metcalfe**—Are you talking about the decision to release this letter?

**Senator MARK BISHOP**—Yes.

**Mr Metcalfe**—The decision to release this letter was made by the Prime Minister.

**Senator MARK BISHOP**—I suppose if the Prime Minister makes a decision that is the end of it. Was the Turkish government or embassy informed that our government was about to release the letter prior to it being released?

**Mr Kemish**—Yes, it was.

**Senator MARK BISHOP**—Did they offer any comment?

**Mr Kemish**—No.

**Senator FORSHAW**—Were they requested to?

**Mr Kemish**—A conversation took place between our ambassador in Turkey and the relevant ministry in Turkey prior to its release, and no objections were raised.

**Mr Metcalfe**—It is quite apparent that the reason the letter was released was that there was quite a lot of misinformation in the public domain as to what the letter had sought. The Prime Minister issued a statement attaching the letter to make it quite clear.

**Senator MARK BISHOP**—When the letter was released, were the attachments released at the same time?

**Mr Kemish**—Yes, they were, although I think there may have been a map associated with the letter which was not released at the time.

**Senator MARK BISHOP**—Weren't there attachments containing information on traffic flows at the Anzac Cove road as well as satellite imagery of that and other roads?

**Mr Kemish**—I will have to check that. I do not know.

**Senator MARK BISHOP**—Can you check that and let us know?

**Mr Kemish**—Sure.

**Senator MARK BISHOP**—If that is so, could we have a copy of those attachments as well?

**Mr Metcalfe**—We would want to check that with the minister.

**Senator MARK BISHOP**—I have some of the attachments, but the letters refer to other attachments.

**Mr Metcalfe**—What I think we are saying is that we are fairly sure that when the letter was released it was released together with attachment (b), which is a summary of proposed improvements. We will check to see whether any of attachments (b) through (o) were released, and if they were not released we will see if the relevant minister is prepared to make those available.

**Senator MARK BISHOP**—Thank you.

**Senator CHRIS EVANS**—I have a few questions on social policy. I know it is not in vogue with the government these days, but some of us still keep an interest.

**CHAIR**—Thanks, Senator Evans, that is very good!

**Senator CHRIS EVANS**—I have got to ask those questions generally under Finance and Administration these days and under PM&C, where I understand the real graft is done on social policy these days! I want to start with a question on the welfare reform task force. I hasten to add that it seems that the department have recruited the appropriately skilled people to do this for them; I do not know who is left in FaCS! Mr Metcalfe, I was hoping we could start with this: no doubt welfare reform would have warranted a task force—could someone give me an overview of the welfare reform process and whether it was a task force or an IDC, who was on it and who led it et cetera?

**Ms Davidson**—There was a task force, though the initial work was done by an IDC. The task force was established subsequently. So from about December 2004 there was an IDC working on it and in February a full-time task force was established.

**Senator CHRIS EVANS**—So effectively most of the work was done by the task force? Is that correct?

**Ms Davidson**—The task force was coordinating a lot of work that was being commissioned from relevant departments, so they were not themselves doing all the work. But on the task force, which PM&C chaired, were Treasury, the Department of Finance and Administration, the Department of Employment and Workplace Relations, The Department of Human Services, the Department of Family and Community Services, the Department of Education and Centrelink. So the people on the task force from those departments will be working with people in their home departments and getting input and advice from them.

**Senator CHRIS EVANS**—But PM&C chaired the task force; is that right?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—Who chaired it?

**Ms Davidson**—An assistant secretary in my division.

**Senator CHRIS EVANS**—Were the other departments similarly represented at that sort of senior level?



**Ms Davidson**—A number of them were SES level. I can go through them. The person from Treasury was not an SES officer and the Finance person was not an SES officer. Employment and Workplace Relations had different people at different stages: they had a deputy who was on the task force at one stage, a division head and a branch head. Human Services had a branch head. Family and Community Services did not have an SES officer and the Education person was not an SES officer, but the Centrelink person was a branch head.

**Senator CHRIS EVANS**—So is it fair to say that, apart from PM&C, the other main agency or lead agency was DEWR?

**Ms Davidson**—It is fair to say that probably the major part of the work involved related to their portfolio.

**Senator CHRIS EVANS**—That was going back as far as February 2004?

**Ms Davidson**—No, February 2005.

**Senator CHRIS EVANS**—Did you second any staff to assist the task force inside PM&C?

**Ms Davidson**—Those people from the other departments that I mentioned were all seconded into PM&C.

**Senator CHRIS EVANS**—They were not just meeting—

**Ms Davidson**—No, they were at PM&C.

**Senator CHRIS EVANS**—It would have been a bit squashy in PM&C then!

**Ms Davidson**—We made space.

**Senator CHRIS EVANS**—They were all in there from February onwards?

**Ms Davidson**—That is right.

**Senator CHRIS EVANS**—They were working and also commissioning work from their own home departments?

**Ms Davidson**—That is right. They were members of the task force.

**Senator CHRIS EVANS**—But they were full time on the task force?

**Ms Davidson**—That is right.

**Senator CHRIS EVANS**—I had the understanding that, a bit like an IDC, they were doing other work as well.

**Ms Davidson**—No; and that is why, as I said, it became a task force. I know there were questions yesterday about the difference—and it is not always clear—but I think a task force is often something that involves a full-time commitment.

**Senator CHRIS EVANS**—How many staff all up did you have on the task force?

**Ms Davidson**—I would have to add that up. I had one from Treasury, one from Finance, three from Employment and Workplace Relations, one from Human Services, one from FaCS, one from Education, one from Centrelink and three of my people full time, and that was supplemented by other people from PM&C.

**Senator CHRIS EVANS**—So it was a fairly major undertaking then?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—Did the task force prepare advice and propositions for cabinet? I am just trying to understand the process.

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—Did the propositions then go forward in the name of the Prime Minister or did they go forward as DEWR submissions?

**Ms Davidson**—They went forward as papers from the task force.

**Senator CHRIS EVANS**—As I understand it, normally it goes forward from a department—

**Ms Davidson**—It was a bit different in that a particular minister was not taking it forward; the task force was providing advice to cabinet.

**Senator CHRIS EVANS**—To the whole of cabinet?

**Ms Davidson**—Yes.

**Senator CHRIS EVANS**—Unless these task forces have much more independent powers than I imagine they have, I suspect someone must have signed off on the submission before it was allowed to go forward to cabinet. Is that right?

**Ms Davidson**—The papers that were prepared for cabinet were signed off by the task force.

**Senator CHRIS EVANS**—By a secretary of PM&C or under your signature?

**Ms Davidson**—They were not under my signature. I think some of them may have been cleared by the secretary, but I am not sure that they were all cleared at his level.

**Senator CHRIS EVANS**—So there was a submission from the task force to cabinet—

**Mr Metcalfe**—Strictly speaking, it is probably referred to as a cabinet memorandum, which is a document that goes from officials rather than a minister.

**Senator CHRIS EVANS**—So you are happy for that to be the formal response with regard to what it was?

**Mr Metcalfe**—I think I might put my response in the abstract rather than the particular. Papers were provided to cabinet, from what I understand. You are using the word 'submission', which has a certain status in that a minister brings a submission forward. There is an ability in some circumstances for officials to come forward in a memorandum, but it is also possible for papers to be otherwise considered. That is what happened here.

**Senator CHRIS EVANS**—I was trying to get a feel for it. Unfortunately, despite my many years in this institution, they have largely been spent in opposition. I am not familiar with these processes. I was trying to understand them.

**Senator FAULKNER**—You are very institutionalised.

**Senator CHRIS EVANS**—Yes. It is fair to say that the Prime Minister had not signed off on them beforehand—there was a document that was available for discussion by cabinet?

**Ms Davidson**—That is right. There were discussions with the Prime Minister and the main ministers involved in the lead-up to the papers going to cabinet, but there was not a formal sign-off by them.

**Senator CHRIS EVANS**—Who did you as a task force brief before it went to cabinet?

**Ms Davidson**—It varied, but there were briefings of the Prime Minister, as I said, the Minister for Employment and Workplace Relations and Minister Dutton. It varied from time to time. There were also briefings of Minister Patterson. Sometimes there were briefings of their officers if we were not able to brief the ministers themselves.

**Senator CHRIS EVANS**—Did you brief the Treasurer or the Minister for Finance and Administration?

**Ms Davidson**—I do not believe there were any briefings of the finance minister. I recall briefings of the Treasurer's office, but I am not sure whether we were actually able to brief the Treasurer.

**Senator CHRIS EVANS**—But you do know that you briefed the Treasurer's office?

**Ms Davidson**—That is right.

**Senator CHRIS EVANS**—That was a formal briefing, not just a chat about how it was going?

**Ms Davidson**—No, the briefings usually happened after the papers were prepared and ahead of cabinet discussion so that there was some opportunity before cabinet discussion to talk through the issues.

**Senator CHRIS EVANS**—Were the members of the task force required or was it part of their duties to brief their minister or were they effectively reporting to you and the prime ministerial chain of command?

**Ms Davidson**—I think they had a dual role. Certainly, we expected most of them to report back, and they were reporting back, to their own ministers on progress.

**Senator CHRIS EVANS**—So they were not in a cone of silence while in PM&C?

**Ms Davidson**—No, they were certainly on the task force, but there was an expectation, in fact, that it would be—

**Senator CHRIS EVANS**—A two-way process?

**Ms Davidson**—Yes.

**Senator CHRIS EVANS**—Can you take me through the process. You put up documents to cabinet. Cabinet then made decisions on those?

**Ms Davidson**—They did make decisions, yes.

**Senator CHRIS EVANS**—That would obviously become part of the budget process. So was this package signed off at that cabinet budget meeting or was this one of the matters left for prime ministerial and Treasurer reconciliation following the budget meeting?

**Ms Davidson**—I think that, as Ms Goddard indicated earlier, there are a number of issues where the final details are sorted between the Prime Minister and the Treasurer. There were aspects of this package that were finalised between the Treasurer and the Prime Minister.

**Senator CHRIS EVANS**—Were those substantive issues or matters of detail?

**Senator Hill**—If they were decided by the Prime Minister and Treasurer then that is pursuant to a licence given by cabinet. What is exercised under the licence and what is not I think is really a cabinet matter.

**Senator CHRIS EVANS**—Did decisions come out of the 2 May meeting that affected the welfare reform package?

**Ms Davidson**—Was 2 May the meeting between the Prime Minister and the Treasurer? Is that the meeting you are referring to?

**Senator CHRIS EVANS**—Yes.

**Ms Davidson**—Yes, they did.

**Senator CHRIS EVANS**—Were you able to finalise the welfare reform package following those decisions?

**Ms Davidson**—There were further decisions made after that meeting.

**Senator CHRIS EVANS**—Whom were they made by?

**Ms Davidson**—They were made between the Prime Minister and the Treasurer.

**Senator CHRIS EVANS**—So, subsequent to the 2 May meeting, there were further decisions made.

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—When was the welfare reform package finally signed-off on?

**Ms Davidson**—I do not know that I know the day that it was formally finalised.

**Senator CHRIS EVANS**—Are you able to check?

**Ms Davidson**—It certainly would have been in that week.

**Senator Hill**—It is not final until it is final, is it?

**Senator CHRIS EVANS**—It is final when the printer starts printing.

**Senator Hill**—That is true for a lot of these things. There is a lot of finetuning.

**Senator CHRIS EVANS**—Although there did seem to be a couple of discrepancies between a couple of the documents that indicates that perhaps the printing had started on some before the others had been finalised—but we will come to them later. So would you like to take that on notice?

**Ms Davidson**—I could. I think it was on the Wednesday or the Thursday.

**Senator CHRIS EVANS**—I have not got my diary with me. What dates are we talking about there?

**Ms Davidson**—I have not got my diary, either.

**Senator CHRIS EVANS**—The 10th was a Tuesday, wasn't it, so the previous Tuesday must have been the third. So are you telling me it was the third or the fourth?

**Ms Davidson**—I think it might be better if I check.

**Senator CHRIS EVANS**—Just for your information, according to the parliamentary calendar the Tuesday was the third and the Wednesday was the fourth. We know that there was a meeting between the Prime Minister and the Treasurer on the second. They both referred to that publicly. We know that there were decisions made subsequent to that. I would appreciate knowing when we finally settled on the detail of the welfare reform package. If you could take that on notice that would be helpful. As part of that work, did you commission modelling?

**Ms Davidson**—I am not sure what modelling includes. Certainly there was work done by Treasury in particular on looking at different options and what their impacts would be.

**Senator CHRIS EVANS**—So Treasury did work on—and I will obviously ask them more specifically about these things—the impacts of various changes on income and taxation et cetera?

**Ms Davidson**—I am not sure. They looked at the impact and perhaps the interactions with taxation.

**Senator CHRIS EVANS**—What about the interactions between family payments and taper rates and allowances and pensions? Was that modelling done as well?

**Ms Davidson**—I think it would be better if you perhaps asked Treasury the exact nature of the modelling that they did.

**Senator CHRIS EVANS**—So the task force did not commission any modelling? I just do not want to turn up at Treasury and have them say, 'You should have asked that of the head of the PM's task force; they are responsible for such matters.' Then I will say, 'But she said to go ask Treasury.' I know exactly what they say. I have had that card played on me before; that is why I am raising it now.

**Senator BRANDIS**—That is what they always say.

**Senator CHRIS EVANS**—As I understand it, the evidence given to us today is that PM&C was the lead agency; PM&C took responsibility; you headed up the task force. Shouldn't I ask you?

**Ms Davidson**—There was material prepared by Treasury for the task force. That is correct.

**Senator CHRIS EVANS**—Are they the only ones that did modelling on the welfare reform package?

**Ms Davidson**—I believe so. I am hesitating and thinking about whether the employment department did any modelling. My recollection is that most of the modelling was done by Treasury.

**Senator CHRIS EVANS**—I will ask them about the details of that. But you do not know of anyone else doing particular modelling on the various impacts of proposed measures in the welfare reform package?

**Ms Davidson**—No.

**Senator CHRIS EVANS**—Was there any work done on comparing propositions to the conclusions of the McClure report?

**Ms Davidson**—Not directly. The task force was certainly aware of the McClure report's work, but there was not a lot of substantive work on comparing propositions to McClure's recommendations.

**Senator CHRIS EVANS**—Was there any wider consultation undertaken by the task force outside of government?

**Ms Davidson**—No.

**Senator CHRIS EVANS**—So there was no consultation with community groups, peak bodies, those sorts of things?

**Ms Davidson**—Not by officials.

**Senator CHRIS EVANS**—Minister Andrews had a process he went through with some of the disability groups, I think. But the task force was internal.

**Ms Davidson**—The task force itself did not.

**Senator CHRIS EVANS**—Who did the work on the assumptions on the impact of the measures? I have been having a bit of difficulty. I understand that the government briefed journalists on the night about, for example, the number of persons who will now go onto enhanced newstart, rather than onto the disability pension. But in my search of the budget documents I cannot find any reference to those assumptions. I understand that the Prime Minister has been saying that it would be over 100,000; the figure of 190,000 was used on one occasion. A number of journalists reported in the press that they were briefed on a figure. For instance, do you know of any public reference to the assumptions that underlie the work on the package?

**Ms Davidson**—There is the budget documentation.

**Senator CHRIS EVANS**—It does not detail the savings measures, though.

**Ms Davidson**—I believe that the employment department or the finance department have more detailed information that builds up to the costing and indicates those sorts of numbers.

**Senator CHRIS EVANS**—But you do not have that available. Was that available to the task force?

**Ms Davidson**—There was some. It depends on which particular figures you are talking about.

**Senator CHRIS EVANS**—For example, one of the key aims of the package is the measure to get people with disabilities into work and, therefore, people are going to be encouraged to go onto enhanced newstart in the future, rather than onto the disability support pension, if they are capable of doing so many hours of work. The key assumption under that is how many people will fall into that group and how many people will continue to access the disability pension. That figure is not in the budget papers. How do I find that out? Who do I ask about that?

**Ms Davidson**—Appropriately, you could ask the employment department, which has all those details. The task force obviously had information provided by the employment department on what the number of new people coming into the system was. So I think your questions on numbers are best directed to them.

**Senator CHRIS EVANS**—Do you accept that that is a key assumption, as to the whole costing of the package?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—Are you able to tell me what that assumption was?

**Ms Davidson**—I have not got that information with me. The detailed costings were largely agreed when it came to the payments between the employment department and the finance department. The employment department has a better knowledge of the details underpinning these figures.

**Senator CHRIS EVANS**—I accept that, and I am happy to follow that up with them, but it seems to me that that is a key assumption. The government has introduced a whole change in the way of dealing with people, and the key assumption is: will they go into the DSP stream or will they go into the Newstart stream? That is not in the budget.

**Ms Davidson**—Certainly, as I said, information was available on how many people it was assumed would meet the new eligibility requirements for the disability support pension and how many would go into Newstart instead.

**Senator CHRIS EVANS**—You cannot give that to me, but you tell me that DEWR should be able to.

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—Therefore, you are not able to tell me either how much savings are supposed to be generated by those measures?

**Ms Davidson**—No.

**Senator CHRIS EVANS**—Do I take it that those decisions were made by the task force?

**Ms Davidson**—Obviously we had information about costings at a reasonably high level, and we provided some key information to ministers about the numbers of people impacted. But there is a lot more information about the numbers in the costings that the finance department and the employment department have most of the detail about.

**Senator CHRIS EVANS**—I am a little surprised that the task force was not on top of what I am assuming are fundamental assumptions. In any event, they were included in options obviously presented to cabinet?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—Has PM&C got any direct role in the implementation of the welfare reform package?

**Ms Davidson**—We do not have a direct role as such, but there are some processes—a steering committee—to oversight the implementation that the employment portfolio is

chairing. We will be represented on that as well as a project management group. The Cabinet Implementation Unit will be involved as well.

**Senator CHRIS EVANS**—Can you take me through that again?

**Ms Davidson**—A steering committee has been established to oversee the implementation.

**Senator CHRIS EVANS**—What is that called?

**Ms Davidson**—The Welfare to Work Steering Committee.

**Senator CHRIS EVANS**—Who is that chaired by?

**Ms Davidson**—The secretary of the employment department.

**Senator CHRIS EVANS**—Who is representing PM&C on that?

**Ms Davidson**—I am.

**Senator CHRIS EVANS**—Lucky you! Who else is represented on the steering committee?

**Ms Davidson**—As well as the Department of Employment and Workplace Relations and us, it will include Human Services, Family and Community Services, Treasury, Finance, Education and Centrelink.

**Senator CHRIS EVANS**—So, essentially, it is the same players as those who were on the task force?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—That will be reporting to whom?

**Ms Davidson**—I am not certain that it has been specified who they will be reporting to.

**Senator CHRIS EVANS**—What has happened to PM&C? First of all, the task force is throwing papers up to cabinet and now we have steering committees that do not know who they are reporting to. Max Moore-Wilton has obviously gone. It would not have happened in the old days.

**Ms Davidson**—I am assuming, given that the secretary of the employment portfolio is chairing it, the reporting would be to that minister. Obviously, members would be briefing their own ministers and I would be briefing the Prime Minister on matters of substance.

**Senator CHRIS EVANS**—I thought only senators went to committee meetings and did not know why they were there and who they reported to.

**Ms Davidson**—We know that as officials we are responsible for overseeing the implementation. I do not recollect that cabinet or the government have said that they should specifically report to a particular minister.

**Senator CHRIS EVANS**—You have the welfare to work steering committee.

**Ms Davidson**—There is also a project management group that sits under that committee.

**Senator CHRIS EVANS**—Are they the people who do the real work?

**Ms Davidson**—Yes.

**Senator CHRIS EVANS**—I presume they are lower-level officers.



**Ms Davidson**—It is going to be chaired by a deputy secretary from the employment portfolio.

**Senator CHRIS EVANS**—What is their task?

**Ms Davidson**—They are responsible for implementation, coordination and planning, and obviously need to report to the steering committee. They are going to be the mechanism by which agencies report their progress, identify issues and action.

**Senator CHRIS EVANS**—Are they a full-time group or are they more like an IDC?

**Ms Davidson**—They are more like an IDC.

**Senator CHRIS EVANS**—So they are not actually full-time during the implementation; this is just the clearing house for issues, responses, how the implementation is going, and that sort of thing?

**Ms Davidson**—That is correct. I would assume that in each agency there will be people who will be working full-time on implementation, but this is the steering committee to bring together different agencies.

**Senator CHRIS EVANS**—Does the project management group have largely the same departments and agencies represented?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—Do they have a reporting date or terms of reference?

**Ms Davidson**—They have not established terms of reference at this stage.

**Senator CHRIS EVANS**—Is there a reporting date per se or is it ongoing?

**Ms Davidson**—It is ongoing.

**Senator CHRIS EVANS**—They will provide update reports to the steering committee—is that correct?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—They will report up the chain to the steering committee, which has slightly more senior officers. Is that a fair way to describe it?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—Did you have a third group in there as well?

**Ms Davidson**—Yes. I mentioned that the Cabinet Implementation Unit in the Department of the Prime Minister and Cabinet would also be involved. A cabinet implementation group was involved in developing an implementation plan that will need to be further refined with the relevant departments.

**Senator CHRIS EVANS**—Has this implementation plan been adopted by cabinet?

**Ms Davidson**—It is not so much that the plan is adopted by cabinet. If something comes under the watch of the Cabinet Implementation Unit, it means that it is an issue on which cabinet is interested in getting reports about progress on implementation.

**Senator CHRIS EVANS**—But there is a plan, is there?

**Ms Davidson**—Work was done on a plan, but it does need to be updated. Further work is required on it.

**Senator CHRIS EVANS**—So the Cabinet Implementation Unit will be updating and monitoring the implementation of the plan?

**Ms Davidson**—They will work with agencies to update that plan. A lot of the work is done by the relevant agencies with the implementation unit.

**Senator CHRIS EVANS**—What sorts of issues are we talking about? You have announced the budget measures. I am trying to get a sense of what sort of charter they will have. Obviously, DEWR has to say, ‘In 2006, these are the new rules et cetera.’ These are functions that obviously fall to DEWR. What is the broad implementation plan dealing with?

**Ms Davidson**—As I said, the role of the implementation plan is to be able to provide cabinet with assurances on significant issues—that they are being implemented effectively.

**Senator CHRIS EVANS**—So it is a monitoring and checking progress function?

**Ms Davidson**—They set milestones so that they can report to cabinet on whether or not they think the project is on track.

**Senator CHRIS EVANS**—I see. Are they the only three? I am not suggesting that is not enough, but is that the extent of the implementation and monitoring mechanism?

**Ms Davidson**—As I said, it is the extent of the overarching ones. I think you will find them in each agency. I am sure they have within their agencies quite detailed arrangements for implementation.

**Senator CHRIS EVANS**—Thanks for that. Regarding the Medicare safety net, I want to understand when Prime Minister and Cabinet first became aware that the cost of the Medicare safety net was to be quite a deal in excess of what had been budgeted for it last year.

**Senator Hill**—When PM&C first became aware?

**Senator CHRIS EVANS**—I am just trying to understand the processes. I understand that the government became aware late last year that the take-up rate and the costs of the safety net were quite a deal in excess of what had been provided for in the budget. Minister Abbott and others are on the record as discussing that, and I think it became public as part of the Charter of Budget Honesty.

**Senator FAULKNER**—Try not to laugh when you say ‘Charter of Budget Honesty’. It just shows that Mr Howard does have a sense of humour.

**Senator Hill**—When did PM&C become part of that debate?

**Ms Davidson**—Originally, PM&C were not part of the debate but we were aware of information that became public information during the election period.

**Senator Hill**—We were all aware of public information.

**Ms Davidson**—The earliest information I have of PM&C actually being involved in dialogue with Finance was after the election period.

**Senator CHRIS EVANS**—When did PM&C first brief the Prime Minister on the larger than expected costs of the Medicare safety net?

**Ms Davidson**—In the briefing we provided to the Prime Minister on his return to government—the incoming government briefing.

**Senator CHRIS EVANS**—You did not provide any advice to him prior to that?

**Ms Davidson**—No.

**Senator CHRIS EVANS**—Did you provide any advice to him regarding correspondence with ministers or others about increasing the cost of the Medicare safety net?

**Ms Davidson**—No.

**Senator CHRIS EVANS**—So PM&C had no knowledge prior to the election—

**Senator Hill**—No. They said they had public knowledge. It was the same public knowledge that we all had.

**Ms Davidson**—The pre-election economic and fiscal outlook noted an increase in expenses.

**Senator CHRIS EVANS**—Yes, I know. And then of course there was the Charter of Budget Honesty, which came clean on the total cost. I think that was the first time the full extent of it was made public. Are you telling me that the first that PM&C knew about that was when they read the Charter of Budget Honesty declaration as to the full cost?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—PM&C was not involved in discussions with the department of health about the issue?

**Ms Davidson**—There were discussions with the department of health on 20 October but I have no record of discussions prior to that.

**Senator CHRIS EVANS**—The discussions on 20 October were post election.

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—And they were relating to the increased cost of the Medicare safety net?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—But prior to that there was no formal engagement with PM&C on this issue other than what they read in the papers?

**Senator Hill**—They read public documents. What do you mean by ‘papers’.

**Senator CHRIS EVANS**—In the public domain. I am merely trying to distinguish between departmental advice, correspondence between ministers, briefings of the Prime Minister and what was in the public domain—that is, what was in the papers or on TV.

**Senator Hill**—The witness said it was only what was in the public domain.

**Senator CHRIS EVANS**—Does PM&C receive updates on the tracking of budget expenditure?

**Ms Davidson**—No. The department of finance and the relevant agencies obviously work on updating the estimates at certain times each year but we are not part of that process.

**Senator CHRIS EVANS**—There is not a rule that says that if you spend 25 per cent more than you are allocated in the first quarter you ought to ring a bell or call somebody? There is no PM&C involvement like that?

**Ms Davidson**—There is no formal thing. From time to time some issue might come up in an estimates updating where we get involved but generally we are outside that process.

**Senator Hill**—You would expect Finance and maybe Treasury to be leading on that, on the monitoring side of it.

**Senator CHRIS EVANS**—The evidence is that PM&C did not brief the Prime Minister prior to the election on the increase in the Medicare safety net costs.

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—Are you aware whether the Prime Minister received correspondence on that issue prior to the election?

**Senator Hill**—From whom?

**Senator CHRIS EVANS**—From relevant departments or ministers.

**Ms Davidson**—There was correspondence that related to it but it may not necessarily have gone to the issue of the increase in the cost. There are a lot of issues that could relate to the Medicare safety net that a minister might write to the Prime Minister about.

**Senator CHRIS EVANS**—Sure. The obstetrics thing was raging, wasn't it? That is an obvious starting point. Did you brief the Prime Minister? Maybe I framed the question too broadly. I want to make sure that I am not drawing the wrong conclusion. Did you brief the Prime Minister on the obstetrics issue?

**Ms Davidson**—I do not believe so.

**Senator CHRIS EVANS**—When I asked the general question I thought I was covering the whole of the issues related to the health safety net. I want to be clear that we are talking about the same thing.

**Ms Davidson**—I thought you were asking me about briefing the PM about the—

**Senator Hill**—Budget blow-outs, expenditure blow-outs.

**Ms Davidson**—budget figures, whereas there could have been other issues around the edge around the safety net that could have come up.

**Senator CHRIS EVANS**—Sure. I am just trying to make sure we are both talking about the same thing. I am not wanting to verbal you. I was talking about the increase in cost. One of the things that was alleged to have increased the cost in the health safety net was the problems that were occurring in the obstetrics field. I guess I saw it as a subset. I am just trying to be clear about whether or not you provided briefings to the Prime Minister about any issues that went to the increase in the cost of the health safety net to government prior to the election.

**Ms Davidson**—I do not believe so, but I do not feel as confident as I do on my other answers. I do not believe we briefed him on the obstetrics issue. I believe there was

correspondence that came in and then the election was called and we did not have an opportunity to brief the Prime Minister.

**Senator CHRIS EVANS**—Did the Prime Minister correspond with anyone about the increase in the health safety net costs?

**Ms Davidson**—Are you asking whether we prepared correspondence?

**Senator Hill**—That is a probably a question for—

**Senator CHRIS EVANS**—I assumed that would stir Senator Hill into action and he would say that there are two questions there.

**Senator Hill**—Yes. I was going to say that that is probably a question for the Prime Minister and not for the department.

**Senator CHRIS EVANS**—I am happy to ask it of both.

**Senator Hill**—Did the Prime Minister correspond with X, or whoever you are talking about, on a particular issue is a question for the Prime Minister and not the department.

**Senator CHRIS EVANS**—I have asked the department whether they provided advice, and I presumed that would include advice which would be included in correspondence for the Prime Minister, and they have said no to that.

**Senator Hill**—That is a fair question.

**Senator CHRIS EVANS**—I do not want to verbal them with that. I thought they would pick up that issue. Minister, if you would like to take on notice whether the Prime Minister corresponded on the issues I would appreciate it. I gather there has a bit of concern about a FOI request in relation to this matter. Is that something you have been handling?

**Ms Davidson**—I am not personally handling it, but I am aware that there is a FOI request.

**Senator CHRIS EVANS**—I raise the point because, as I understood it, there was some reluctance to accede to the FOI request that was put in by Ms Gillard, on the basis that a large amount of paperwork and activity would be required to provide details on these issues, and yet what I am hearing now is that the department did not know anything about the health safety net and was not involved in any briefings prior to the election. So there seems to be a different sense of the PM&C involvement in these issues.

**Senator Hill**—I do not know what Ms Gillard sought, and I do not know the response, but I would have thought that was an issue between her and the department.

**Senator CHRIS EVANS**—It is. It is also an issue that an interested senator might like to follow up at estimates, I suppose.

**Mr Metcalfe**—This puts us in an interesting position, because Ms Davidson tells me that she has not sought to brief herself on the FOI request because she may, depending on the decision that is made, ultimately be a review officer under the FOI legislation. So we want her untainted as far as FOI is concerned, which makes it difficult for her to speak with authority in this forum.

**Senator CHRIS EVANS**—I am happy to have her placed in the cone of silence for a few minutes, if you like, Mr Metcalfe, and we can ask another officer who is perhaps handling it to tell us what the problem is with the FOI request.

**Ms Belcher**—Government Division is not handling it. We are dealing with one of Ms Davidson's officers. We do coordinate FOI matters, so I can tell you some of the detail of the request. I understand that Ms Gillard's request goes back some years. In fact, I think she wants documents over a period of three years.

**Senator Hill**—It goes back some years?

**Ms Belcher**—Yes. The department has done an assessment that over 11,000 pages of documents could fall within the scope of the request. That would involve well over 3,000 hours of work in searching, retrieving et cetera. Therefore, the decision maker in the division at this stage considered that that would be a substantial and an unreasonable diversion of the department's resources. We would therefore like to work with Ms Gillard in perhaps narrowing the request so that it could be managed within the department.

**Senator CHRIS EVANS**—Is there a negotiation now occurring?

**Ms Belcher**—Yes. We have invited Ms Gillard to consult with the department to narrow the request.

**Senator CHRIS EVANS**—So your concern is about the cost rather than the actual documentation and the size of the task?

**Ms Belcher**—Yes. I understand that the section involved in Ms Davidson's division is one of just four people. So something that would take 3,000 hours is obviously going to be a big problem.

**Senator CHRIS EVANS**—They have done welfare reform and now they have time on their hands.

**Senator Hill**—She wants 3,000 pages of material and then sends you in here to hunt on her behalf.

**Senator CHRIS EVANS**—I was not sent in here, but I knew of the request and the problem. When the officers indicated that there was not a great deal of PM&C involvement in this issue, at least prior to the election, I was a bit—

**Senator Hill**—So Ms Gillard did not tell you that her request went back three years?

**Senator CHRIS EVANS**—I do not have the details of the request. I was just interested to follow up on whether there is a negotiation occurring. As you might remember from your days in opposition, Senator Hill, it is sometimes hard to know exactly the size of the problem and who might be involved, and sometimes one casts ones net too widely. If that is the case, maybe Ms Gillard and the department will be able to agree on a narrower cast. That is obviously for them to negotiate. I do not have any authority to speak on Ms Gillard's behalf on those matters.

**Mr Metcalfe**—I would not want to leave you with the impression that the scope of the request is the only matter. If in fact the request is narrowed so that the amount of work no longer becomes unreasonable, there still would need to be a line by line consideration as to

whether the material was exempt under the FOI Act. That in no way indicates what a decision maker or reviewer might ultimately decide. There is a two-step process here: one, to try to see if we can come up with a request that is not an unreasonable diversion of resources and, two, having got there, the material would have to be examined to see whether it was releasable under the FOI Act.

**Senator CHRIS EVANS**—So you are saying that there are two hurdles that Ms Gillard will have to get through—the first being the question of cost, volume and resource demands on the department and the second being whether or not you see fit to release some of the information?

**Senator Hill**—They have a statutory obligation.

**Mr Metcalfe**—That is right. We will apply the act properly in undertaking that work.

**Senator CHRIS EVANS**—No-one was suggesting that you would not. I just want to be clear about it. So you have said to her that you think it will take 3,000 hours to prepare?

**Ms Belcher**—That is right.

**Senator CHRIS EVANS**—And you are now in negotiation with her about that response?

**Ms Belcher**—Yes. The department has written to Ms Gillard. As of yesterday, I do not believe we have had a reply, but I think the letter went only last week.

**Senator CHRIS EVANS**—We can now lift the cone of silence, and I will follow through on the question of what involvement PM&C has had in the Medicare safety net issue post the election. I think it was indicated that the department became involved on 20 October. Is that right?

**Ms Davidson**—I indicated that there was a meeting with the health department on that date.

**Senator CHRIS EVANS**—Was advice provided to the Prime Minister following that meeting?

**Ms Davidson**—We had actually provided advice to the Prime Minister before that meeting. As I indicated, we had given him advice in our post-election briefing.

**Senator CHRIS EVANS**—When would he have got that?

**Ms Davidson**—I am not sure.

**Mr Metcalfe**—As you would be aware, the briefing would be available for the incoming Prime Minister immediately a result was known, so I imagine he would have got that on the 10th.

**Senator CHRIS EVANS**—Effectively, there was a briefing provided for him on this issue, which he would have had access to on the 10th but which would have been prepared by the department some time before that.

**Senator Hill**—This is the full incoming brief—

**Mr Metcalfe**—This is the incoming government brief. A whole range of issues was covered in that, but this was included amongst those matters.

**Senator CHRIS EVANS**—I am not suggesting that it was exclusively about the health safety net, but I think you indicated that that was one of the issues canvassed in the incoming brief. The next departmental involvement was a meeting with health department officials on 20 October. Was a further briefing provided to the Prime Minister following that meeting?

**Ms Davidson**—I do not believe so. In fact, my records indicate we did a follow-up briefing for the Prime Minister before that meeting. I do not have a record that we provided another briefing after that meeting.

**Senator CHRIS EVANS**—Just so I am clear here, there was a reference to the Medicare safety net cost issue in the incoming Prime Minister's brief, which the Prime Minister would have had access to after 10 October. When did you provide a subsequent brief to the Prime Minister on that issue?

**Ms Davidson**—On 19 October.

**Senator CHRIS EVANS**—So on 19 October you provided a brief to the Prime Minister on the question of the Medicare safety net costs and then met with the health department officials on the following day?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—Were there officials from other departments at that meeting?

**Ms Davidson**—Not to my recollection. I think it was just the health department and ourselves.

**Senator CHRIS EVANS**—Finance was not represented?

**Ms Davidson**—No. I am fairly confident that it was only us and health. If it was otherwise, I will come back and correct that.

**Senator CHRIS EVANS**—What followed on after that in terms of PM&C involvement?

**Senator Hill**—Did you give any more advice on the matter?

**Ms Davidson**—Subsequent to that, at different stages we gave the Prime Minister further advice.

**Senator CHRIS EVANS**—Can you give me the dates for when you gave that advice?

**Ms Davidson**—I would have to take that on notice.

**Senator CHRIS EVANS**—Do you know the number of times you advised the Prime Minister?

**Mr Metcalfe**—We will take that on notice. It is dates and numbers.

**Senator CHRIS EVANS**—Was there an interdepartmental committee or task force formed to review the Medicare safety net and the cost issue?

**Ms Davidson**—I do not believe an IDC was established.

**Senator CHRIS EVANS**—Did PM&C engage in a range of meetings with health, finance and others about these issues?



**Ms Davidson**—I do not believe so. It is difficult because we go into a series of discussions as part of the broader budget processes. But I do not remember any specific meeting on this. But perhaps I should check that.

**Senator CHRIS EVANS**—The government made an announcement pre budget about the safety net issue, didn't it?

**Ms Davidson**—That is correct.

**Senator CHRIS EVANS**—Was that as a result of a cabinet decision?

**Ms Davidson**—Yes.

**Senator CHRIS EVANS**—Do you know the date of that cabinet decision?

**Ms Davidson**—I do not have the date of that cabinet decision.

**Senator Hill**—I do not know that you can say that it was as a result of a cabinet decision. You can say when the announcement was made.

**Senator CHRIS EVANS**—I am sorry, Minister; I was actually away at the time, so I missed this announcement.

**Mr Metcalfe**—I understand that the announcement was made on 14 April.

**Senator Hill**—But the processes of government, as opposed to the administrative processes that might have led to that decision, are for government, not the department.

**Senator CHRIS EVANS**—So, Minister, you indicated that this was not a cabinet decision or—

**Senator Hill**—I did not indicate whether it was or it was not.

**Senator CHRIS EVANS**—I see. You will not indicate. You do not want to say whether it was a cabinet decision. I do not understand—

**Senator Hill**—A decision of government was announced. The formal processes by which government reaches a decision are the business of government.

**Senator CHRIS EVANS**—So whether something is a cabinet decision or not is now secret, is it? I do not remember hearing that before at estimates. I know secrecy is very much in vogue these days.

**Senator Hill**—It is not. We are a very transparent government. In fact, what we are trying to preserve are the remnants of government confidentiality. There is not much left, but the business of cabinet is one of the few areas which we think should be guarded.

**Senator CHRIS EVANS**—So your objection is to actually telling me whether or not there was a cabinet decision.

**Senator Hill**—The next thing you will want are the minutes of the cabinet meeting. The next thing will be who argued what.

**Senator CHRIS EVANS**—We generally get those.

**Senator Hill**—Sometimes you do. You read the front page of the *Australian*.

**Senator CHRIS EVANS**—Generally we find that the minister who lost the argument then reports to the fourth estate and we all get to know.

**Senator Hill**—Not generally.

**Senator CHRIS EVANS**—I just want to know whether there was a cabinet decision or not, Minister. Your position seems to be that whether or not there was a cabinet decision is now a cabinet secret, which I find passing strange.

**Senator Hill**—A decision was made and was announced.

**Senator CHRIS EVANS**—I assume this means you were not consulted again. You are keen to make the point that it was not necessarily a cabinet decision. I do not quite get it, but anyway. So the decision was announced on 14 April. You are going to get back to me on the number and the dates of advices provided to the Prime Minister on the blow-out in the cost of the Medicare safety net.

**Senator Hill**—On the issues.

**Ms Davidson**—I thought that what you asked me was about the number of times after 19 October before the decision was announced.

**Senator CHRIS EVANS**—Yes, that period in which you said there were a number of advices but you were not sure of the number or the dates. I thought you had taken that on notice. Thanks for that. That has been helpful.

**Senator FAULKNER**—I want to ask a couple of questions on 3.2.

**Senator MURRAY**—Are you moving off social programs?

**Senator FAULKNER**—I was.

**CHAIR**—Senator Murray, please ask your questions.

**Senator MURRAY**—I suspect this question is addressed to you, Ms Davidson. The Senate Community Affairs References Committee brought down two reports into the care of children either in institutions or in foster homes. They were unanimous reports. The Senate is awaiting the government response. I assume, because the reports' recommendations covered a number of fields, that it will be a coordinated, whole-of-government response and therefore I assume that it is being coordinated through PM&C. Is that correct?

**Ms Davidson**—No. We do not usually coordinate government responses to Senate committee reports. It is usually the department that has primary responsibility in that area that coordinates the response. I would have thought it would have been the Department of Family and Community Services.

**Senator MURRAY**—I was not aware who did it. Obviously, the Senate simply produces a report. But I am aware that the recommendations cover more than one department. So PM&C has no role at this stage?

**Ms Davidson**—If another department is coordinating the response, we would be involved at some stage in seeing that response, but we do not normally take the responsibility for coordinating that response.

**Senator MURRAY**—You know nothing about those two reports in an official sense, then?

**Ms Davidson**—No.

**Senator MURRAY**—All right. Thank you.

[3.07 pm]

**CHAIR**—Senator Evans and Senator Faulkner, do you have any further questions for the department?

**Senator FAULKNER**—Yes. I have a couple of questions relevant to output 3.2. I want to ask some questions about the two identity related pilot programs which are examining the feasibility of the online verification service using data-matching to help detect false identities. Are you able to assist me, Mr Lewis, on who would be involved in this pilot study?

**Mr Metcalfe**—The detail on this is with the Attorney-General's Department. We have some information, but I suspect that Attorney-General's are going to have more information.

**Senator FAULKNER**—Let me rephrase the question: what involvement, if any, is there by PM&C?

**Mr Metcalfe**—I am advised that there is a cross-agency group on identity issues, chaired by a deputy secretary in the Attorney-General's Department. PM&C is a member of that group. But as for the particular pilots that you mentioned, we have no operational involvement.

**Senator FAULKNER**—Is the Attorney-General's Department the lead agency in both those elements?

**Mr Metcalfe**—That is correct.

**Senator FAULKNER**—So, apart from the group you have described, there is really no involvement of PM&C.

**Mr Metcalfe**—No. We were involved in that, as with all of these issues, there was government consideration of the issue, including through the budget process, and we provided advice through that process. Now that decisions have been taken, Attorney-General's is the lead agency in getting on with the job.

**Senator FAULKNER**—If that is the case, we can direct any questions to them.

**Senator CHRIS EVANS**—Mr Lewis, can you give me a brief overview of the structure of the National Security Division and how it operates?

**Mr Lewis**—The division has been going since the year before last, for nearly two years now. We are structured with essentially two branches: the Defence and Intelligence Branch—which obviously ranges over those issues emanating from the Defence Department and the six intelligence agencies—and the Domestic Security Branch—which ranges over a number of domestic security issues that are considered by the mainstream departments of Attorney-General's, DOTARS and a number of other agencies. Within the Domestic Security Branch there is a section known as the SET unit—Science, Engineering and Technology Unit—a group of four or five secondees, people with scientific backgrounds. The SET Unit works towards bringing focus to our national science and technology effort in order to harness that effort and focus it on counter-terrorism capability. We are about 43 folks in number.

**Senator CHRIS EVANS**—Can you give us a breakdown? For instance, how many people are in the Defence Intelligence Branch, vis-a-vis the Domestic Security Branch and the Border Protection Branch? I will not hold you to exact numbers.

**Mr Lewis**—It is 21, 22 in each.

**Senator CHRIS EVANS**—In terms of the policy work, is that done within each branch?

**Mr Lewis**—Yes, it is.

**Senator CHRIS EVANS**—They deal with the policies within their sort of stream, as it were?

**Mr Lewis**—That is correct.

**Senator CHRIS EVANS**—And regarding the National Counter-Terrorism Committee Secretariat—

**Mr Lewis**—The NCTC Secretariat is within the Domestic Security Branch. Several officers are given over to providing secretarial service to the committee that is chaired by Mr Metcalfe.

**Senator CHRIS EVANS**—Is that the extent of the role: secretariat to the committee?

**Mr Lewis**—They provide a range of secretarial services to the committee, they process matters coming out of the committee and they keep the paperwork flowing. As you know, it is a very important committee.

**Senator CHRIS EVANS**—Do they provide policy advice?

**Mr Lewis**—Not per se. Within the Domestic Security Branch there are a number of sections that provide policy advice, but that is not to say an individual officer who is in the secretariat might not be able to contribute personally because of their background. It is probably not as clear cut as you might think.

**Senator CHRIS EVANS**—The task force on offshore maritime security; has that been effected by this joint offshore protection command?

**Mr Lewis**—The task force predates the joint offshore protection command, but Mr Metcalfe could speak in a little detail on the task force.

**Mr Metcalfe**—The task force was established following the government's review of maritime security about a year ago to specifically focus on offshore maritime security beyond ports. That committee reported, from memory, late last year.

**Mr Lewis**—November.

**Mr Metcalfe**—One of the principal recommendations of that task force was that there should be the establishment of the joint offshore protection command which, as I am sure you know, sits jointly between the Australian Defence Force and the Australian Customs Service. Indeed, it was launched by Minister Hill and Minister Ellison a few weeks ago.

**Senator CHRIS EVANS**—So does that mean that the task force on offshore maritime security no longer exists?

**Mr Metcalfe**—It is now defunct.

**Senator CHRIS EVANS**—Have the officers involved been redeployed?

**Mr Metcalfe**—The head of the task force has now retired and the officers have now returned. I think one officer has returned to the National Security—

**Mr Lewis**—One has returned to Defence and the other one has come back to the National Security Division.

**Mr Metcalfe**—And one has returned to Customs.

**Senator CHRIS EVANS**—What about the Critical Infrastructure and Transport Security Section—where do they sit?

**Mr Lewis**—We have within the domestic security branch a transport security section. It provides policy coordination and advice on transport security—working very closely, of course, with the aligned department, DOTARS, which has an entire division given over to that issue.

**Senator CHRIS EVANS**—How many officers do you have in that section?

**Mr Lewis**—Three.

**Senator CHRIS EVANS**—How does that fit in with Mr Palmer's role?

**Mr Metcalfe**—Mr Palmer as the Inspector of Transport Security—is that your question?

**Senator CHRIS EVANS**—Yes.

**Mr Metcalfe**—It is quite separate; our section is a small PM&C policy coordination and advising section. It is very similar to a range of sections throughout the department. Mr Palmer's role is quite specific in relation to being responsible, at the request of the minister, for inquiring into transport security issues and providing advice to the government on those issues.

**Senator CHRIS EVANS**—So there is no direct interaction?

**Mr Metcalfe**—No, we have seen Mr Palmer once or twice on that issue, from memory—and we would expect to see him from time to time—but he has a particular function and we have quite a separate function.

**Senator CHRIS EVANS**—How does the NSD achieve its mandate of fostering greater coordination and a stronger whole-of-government policy focus?

**Mr Lewis**—We maintain daily linkages with the aligned department. We are engaged in a large number of interdepartmental committees, some of which we convene and some of which we sit on. We are clearly linked to a number of departments through the National Counter-Terrorism Committee, where, as you know, the federal government departments that have a dog in that fight are sitting on one side and all the states and territories are on the other. We have extensive linkages through that formal committee system. There is the Australian Government Counter-Terrorism Policy Committee, where we are also hooked up. There is then, of course, the SCNS—the Secretaries Committee on National Security—and the NSC process, which we support. So there is a wide range of areas in which we roam and operate—maintaining, as I say, this very strong cross-portfolio linkage.

**Senator CHRIS EVANS**—Does that include involvement with the Protective Security Coordination Centre?

**Mr Lewis**—Yes, it does.

**Senator CHRIS EVANS**—Is there an organisational chart that reflects these relationships? To be frank, coming from the outside—even as someone who has had some exposure to Defence acronyms and organisational charts—this is a bit of a challenge.

**Mr Lewis**—Yes. I do not know of any single piece of paper, but we do have a number of diagrams, particularly ones that support the National Counter-Terrorism Committee structure and so on, which would throw some light on it. But I do not know of a single document that would show you all those sorts of linkages. It is not beyond the wit of man to put one together, but I do not know that there is one in existence.

**Mr Metcalfe**—There is an excellent document which was published last year by the government, called *Protecting Australia against terrorism*, which is on our web site and which PM&C sponsored and coordinated amongst all agencies. It describes in some detail the roles and responsibilities of various agencies, including PM&C, the National Security Division and the Protective Security Coordination Centre. But, in very broad terms, the PSCC is responsible for operational coordination, and the National Security Division is responsible for policy coordination. Further to the discussion I had with Senator Faulkner yesterday about continuity of government planning, I suppose that is an indication of an issue where we develop the policy arrangements and the PSCC now has the operational management.

**Senator CHRIS EVANS**—For instance, with something like Australian public transportation networks initiatives for security, what would the NSD's role be in that?

**Mr Lewis**—Nothing specifically. It is more a matter of us keeping in contact with the Office of Transport Security within the Department of Transport and Regional Services and understanding the detail of the work that they are doing. If it were to come to us directly, it would most likely present through the Australian Government Counter-Terrorism Policy Committee. That would be an opportunity where a department—such as DOTARS, which would be working the detail—would bring those sorts of issues to a more general forum.

**Senator CHRIS EVANS**—Who do you report to?

**Mr Lewis**—To Mr Metcalfe.

**Senator CHRIS EVANS**—Is that your only reporting line of authority?

**Mr Lewis**—Yes.

**Senator CHRIS EVANS**—Thank you for that.

**Mr Lewis**—I would like to correct one thing. You asked me a moment ago about the relative size of the organisations and I mentioned that the Defence and Intelligence Branch had about 22 people in it as well. Actually, that branch currently has only 18.

**Senator CHRIS EVANS**—I am trying to get a sense of it. It is basically half and half.

**Mr Lewis**—I just want to make sure that we have the facts right.

**Senator FAULKNER**—This question may be in Ms Belcher's bailiwick. I am interested in asking about the Chief Scientist. I wonder whether the Government Division was ever consulted in any way or whether advice was ever sought from the Government Division or the department more broadly about whether Dr Batterham's second job with Rio Tinto constituted a perceived or actual conflict of interest.

**Ms Belcher**—I do not believe that question was ever put to us. Some time back, and I think it would be some years ago, we looked at the provisions at the time of Dr Batterham's appointment that would require him to declare any conflicts of interest that arose, but that was the extent of it. We were aware of the Senate committee report in relation to Dr Batterham but we were not asked to provide advice on that.

**Senator FAULKNER**—You say that there was some involvement at the time of his appointment.

**Ms Belcher**—Yes. It might have been after his appointment, but quite some time ago.

**Senator FAULKNER**—Are you able to say what the role of the Government Division was?

**Ms Belcher**—I do not believe that we did more than review the documentation that had been prepared that made it clear that Dr Batterham would need to remove himself from certain discussions or declare situations that could cause conflicts of interest.

**Senator FAULKNER**—Was written advice provided by the Government Division on that?

**Ms Belcher**—No, I do not believe it was. I believe we were just shown the documentation and asked if we had any comments on it. I suppose that would have been around the time that certain concerns were being raised.

**Senator FAULKNER**—Do you have the normal breakdown of DLO numbers and are they able to be provided? It is useful to do this in document form to save an awful lot of time.

**Ms Belcher**—Yes, I can do that.

**Senator FAULKNER**—Mr Metcalfe, would it be possible to table that as we normally do? Ms Belcher, perhaps you could indicate to the committee whether there are any changes that you have identified.

**Mr Metcalfe**—We will table the current document.

**Senator FAULKNER**—Thank you.

**Ms Belcher**—There are 67 DLOs at the moment and there were 67 when we were last asked.

**Senator FAULKNER**—I appreciate that. Thank you very much. Could you indicate to me whether anyone could assist with my questions that were taken on notice in relation to the cost of functions held at Kirribilli House between 1 June 2003 and 1 January 2004 that were paid for by the taxpayer? Could someone assist me with that?

**Ms Costello**—That was a question taken on notice. We do not have a final response for you as yet.

**Senator FAULKNER**—Wasn't a draft answer submitted to the Prime Minister's office on 7 April 2004?

**Ms Costello**—Yes, we talked about that at a previous estimates—that is correct.

**Senator FAULKNER**—So the Prime Minister is so embarrassed about this that he has been sitting on it for over a year?

**Ms Costello**—We do not have a final response.

**Senator FAULKNER**—So it has been in the Prime Minister's office for 13 months? Does anyone know what is going on here? Senator Hill, can you help us?

**Senator Hill**—No, I cannot help you with that.

**Senator CHRIS EVANS**—He has too much form of his own!

**Senator Hill**—There must have been complexity in the question.

**Senator CHRIS EVANS**—Senator Hill does not want to open up this particular issue, he has got form of his own—he is still looking for answers from a few Defence issues.

**Senator Hill**—We are pretty good at answering questions.

**Senator CHRIS EVANS**—You are not very good at answering questions on the *Tampa* and the use of intelligence on the *Tampa* issue.

**Senator FAULKNER**—You are not good at answering questions you do not want to answer. You are not good at answering any questions. Here is a question, a draft answer to which was supplied to the Prime Minister's office on 7 April 2004 relating to expenditure between 1 June 2003 and 1 January 2004 and no answer has been forthcoming. This is about functions that were payed for by the taxpayer at Kirribilli House and you do not really have to have a very fertile imagination to know why the answer has been sitting in the Prime Minister's in tray for 13 months.

**Senator Hill**—I assume there are issues relating to the draft answer, but I do not know what those issues are.

**Senator FAULKNER**—You assume what?

**Senator Hill**—There are issues relating to the draft. Maybe there is a dispute about some aspects of it. I do not know.

**Senator FAULKNER**—Mr Metcalfe, can you indicate to the committee whether there has been any reference of issues relating to the draft answer since it was provided to the Prime Minister's office? Have any issues been raised with the department?

**Ms Costello**—No specific issues. We have followed up at intervals.

**Senator FAULKNER**—There have been no specific issues and you have followed up—do you mean you have followed it up because it is so late?

**Ms Costello**—We regularly follow up questions on notice.

**Senator FAULKNER**—I am not critical of that: that is appropriate. Of course, if something has been sitting in the Prime Minister's in tray for 13 months I would have expected you to follow it up—full marks for that. But nothing has been signed off by the



Prime Minister. It is still sitting there. Now, would you take on notice—I do not expect you to have the detail here—the same information from the period from 1 January 2004 to 1 January 2005? I am expecting that in about five or six years, if the government is still in office, an answer will be provided!

**Mr Metcalfe**—We will take that on notice.

**Senator CHRIS EVANS**—I will get your heirs and successors to follow it up too, Senator Faulkner!

**Senator FAULKNER**—I will be long gone from the parliament by the time Mr Howard is decent and honest enough to provide an answer on it. What about my question on notice relating to Mr Howard's stays at Claridge's hotel? That has not been answered yet either, has it? That was question on notice No.103, with notice given on 1 December 2003. What happened to that one—can anyone help me with that one?

**Ms Costello**—My records show it was answered. I have not got the detail on that; we can find it out.

**Senator FAULKNER**—Thank you. As far as I am aware it has not been answered. I will chase that up with the committee secretary and come back. How many outstanding questions are there that you have a record of, Ms Costello? Is there anything predating my excellent question of—

**Senator Hill**—It sounds like a fishing expedition. Surely you know which ones have not been answered. What are you giving her your dirty work for?

**Senator FAULKNER**—I want to know what Ms Costello's records or the departmental records show.

**Senator Hill**—If you have not got enough interest to follow these yourself, how can you ask her?

**Senator FAULKNER**—The department properly keeps a log of these things, Senator Hill, which is something that you should have done yourself, and also, apparently—and you can correct me if I am wrong, Ms Costello—from time to time chases the unanswered questions up. That is right, is it not?

**Ms Costello**—Correct. We have followed some up, yes.

**Senator FAULKNER**—In the records you have in front of you, is that question I asked about the cost of functions at Kirribilli House the one that has been outstanding for the longest period of time?

**Ms Costello**—It is the one in my area that is the longest, yes.

**Senator FAULKNER**—So that has got the gold medal. Which one has the silver medal, for the second longest period of time?

**Senator Hill**—What do you think?

**Senator FAULKNER**—Let us get the answer from the officials.

**Senator Hill**—Come on, you say that others should monitor these questions. They are your questions. Which one have you been so anxiously awaiting, sitting on the edge of your seat?

**Senator FAULKNER**—Why don't you resign, Senator Hill, and I will take over your job at the table, and we will have a much more transparent and open process and a great deal more integrity in government process than what you have provided? So let me ask the questions, given that I am on this side of the table, and you get back to your defence files.

**Senator Hill**—But you are just fishing.

**Senator FAULKNER**—You are onto the yellow files now; you have done the other colour-coded documents.

**CHAIR**—We have to have an afternoon tea break, Senator Faulkner.

**Senator Hill**—This is not a fishing expedition.

**Senator FAULKNER**—Fine, you can have an afternoon tea break. But let us just answer the question that is before the chair, which Senator Hill does not want answered because he is so embarrassed about it. Ms Costello, do you want me to repeat the question, because you were so rudely interrupted by Senator Hill, or do you remember it?

**Ms Costello**—From the last estimates we have one question that is outstanding, but it was not required to be answered by the set time. That was another CERHOS question, because it related to the questions on the present for Prince Charles. That was answered last night. The rest were answered on time. There is another question, from I think Senator Harradine, that related to embryo research.

**Senator FAULKNER**—Thank you. Do you want to have an afternoon tea break now?

**CHAIR**—I am wondering how long you are going to be.

**Senator FAULKNER**—That depends on the level of cooperation I receive from Senator Hill.

**CHAIR**—It is worrying, Minister!

**Mr Metcalfe**—My records, and I will correct this if I am wrong, indicate that questions PM67 and PM45 of budget supplementary hearings on 3 and 4 November 2003 have not been answered. There is PM38, from February 2004, which is the question we have just discussed. The only other one is the one relating to the wedding present for Prince Charles, and we answered that last night.

**Senator FAULKNER**—But you are talking about—I assume, because I do not have the codes in front of me—the same questions that Ms Costello is talking about.

**Mr Metcalfe**—Yes.

**Senator FAULKNER**—Thank you.

#### **Proceedings suspended from 3.33 pm to 3.53 pm**

**CHAIR**—I call the committee to order. The committee was examining the Department of the Prime Minister and Cabinet.

**Senator FAULKNER**—Could someone assist us in relation to any expenditure at Kirribilli House during this financial year—in other words, from 1 July 2004—and tell us whether there is any planned expenditure for 2005-06 and the out years?

**Mr Metcalfe**—I will ask Ms Costello to respond to that.

**Ms Costello**—In February I gave the committee a list of what had been done from 1 July till February. I do not have that material with me at the moment, but I can give you what we have spent since February.

**Senator FAULKNER**—I am aware of the figure from, I think, 1 July 2004 to 1 February 2005. Is there anything additional from 1 February 2005?

**Ms Costello**—There is some minor expenditure. A couple of trees have been taken out. There has been some minor repair and maintenance—and that includes plumbing and items like that—of three different amounts. February was \$2,442, March was \$1,717 and April was \$202. They are minor elements of repair and maintenance.

**Senator FAULKNER**—What about the trees?

**Ms Costello**—The trees were \$2,960.

**Mr Metcalfe**—They were pulled down because they had died, so it was a safety issue. I am informed they were a *Dais cotinifolia* and a *Metasequoia glyptostroboides*.

**Senator FAULKNER**—That is very useful information. If only the pronunciation could match it.

**Mr Metcalfe**—Fortunately, that will not come through on the record. I am a victim of my upbringing in some respects.

**Senator FAULKNER**—Not a Latin student?

**Mr Metcalfe**—Occasionally.

**Senator FAULKNER**—It is a massive assumption on my part that it is Latin, of course. No doubt I will be corrected if that is not the case. Any expenditure up until 30 June 2005?

**Ms Costello**—There is some deteriorated external paintwork and we are currently getting quotes on that. That would be a repair and maintenance job.

**Senator FAULKNER**—Is that a full repainting of Kirribilli House?

**Ms Costello**—No. It is the repair of existing paintwork. It is not a complete repaint. There have also been some issues with the electrical wiring in the residence. We may have to get some areas of that rewired as well.

**Senator FAULKNER**—Nothing else for this financial year?

**Ms Costello**—No.

**Senator FAULKNER**—At this stage, what plans do we have, if any, for the out years—next financial year and beyond?

**Ms Costello**—There is nothing in the planning. There are no major works.

**Senator FAULKNER**—What is happening at the Lodge?

**Ms Costello**—Since the last hearings, exterior furniture, a number of teak settings—some of which were purchased over 12 years ago and had deteriorated—were replaced. We replaced three tables and 16 chairs.

**Senator FAULKNER**—What was the cost?

**Ms Costello**—The total cost, including GST, was \$6,313.

**Senator FAULKNER**—Teak seems to be a popular wood at the Lodge.

**Ms Costello**—This is exterior furniture.

**Senator FAULKNER**—I would hope so. I noticed you said exterior furniture. I was hoping that if it were interior furniture it might last more than 12 years. That does not seem a very long time for exterior furniture to last.

**Ms Costello**—It is a fairly harsh climate.

**Senator FAULKNER**—Let us hope it was not mistreated. What else do we have?

**Ms Costello**—We have some repair and maintenance to interior furniture, which is restoration of the main dining table and another dining table which had a split top that had to be repaired.

**Senator FAULKNER**—What has happened to the main dining table?

**Ms Costello**—It has been restored. The surface has been taken back and restored.

**Senator FAULKNER**—What did that cost the taxpayer?

**Ms Costello**—The total cost for the two tables is \$4,911.50. Sorry. I am corrected there. There are actually four tables in all of that. The main dining table is three separate tables.

**Senator FAULKNER**—Anything else?

**Ms Costello**—No.

**Senator FAULKNER**—Anything planned there?

**Ms Costello**—The only planning at the moment involves the roof. We are doing a preliminary investigation. The building has a roof of slate that was replaced. The original roof was replaced in the mid-eighties and it is not lasting as it was meant to. We may have to consider replacing that slate roof.

**Senator FAULKNER**—This is the full roof at the Lodge?

**Ms Costello**—Yes.

**Senator FAULKNER**—Is there a heritage issue in relation to that replacement?

**Ms Costello**—There is. It should be replaced with the original type of slate.

**Mr Metcalfe**—Unfortunately, I gather that the slate used in the mid-eighties was of quite poor quality, so it has deteriorated quite rapidly.

**Ms Costello**—And some tiles have broken recently and fallen off, so there is an OH&S issue there as well.

**Senator FAULKNER**—What did you say about its quality, Mr Metcalfe? Did you say it was of questionable quality?

**Mr Metcalfe**—No, it was of quite a poor quality, I understand, and so it has not lasted in the way that it should.

**Senator FAULKNER**—Is there a budget for that?

**Ms Costello**—The cost in the eighties was \$132,000. We are currently getting quotes, and we think it may be \$200,000 or more but we do not know at this point.

**Senator FAULKNER**—Do you think it is urgent work?

**Ms Costello**—We consider that it needs to be replaced, and the Official Establishments Trust is very keen for us to get some analysis done and look at that as quickly as possible.

**Senator FAULKNER**—So there is nothing else internal or external planned there?

**Ms Costello**—There is nothing planned.

**Senator FAULKNER**—So that is the lot in both establishments. What about the Australiana Fund in terms of the internal fittings and furnishings and the like?

**Ms Costello**—Firstly, I would like to correct what I said about other works. I advised in February that we were getting the last bit of carpeting done, and that is not yet complete—that is the carpeting in the foyer area and the stairs of the Lodge. That is not yet complete.

**Senator FAULKNER**—But the dollar amount remains the same.

**Ms Costello**—Yes. On the Australiana Fund, I am advised that about eight months ago two hall chairs were provided for Kirribilli House and a console table has also been provided for Kirribilli House within the last year—I am not sure of the exact date.

**Senator FAULKNER**—A console table.

**Ms Costello**—Yes. I do not actually know what that is.

**Senator FAULKNER**—What are the values of those items of furniture?

**Ms Costello**—I would have to check the values. The Australiana Fund is independent of the department, so I do not necessarily know the values.

**Senator FAULKNER**—We have been down this track too many times for me to even remember. At some stage the Australiana Fund are likely to say to you, ‘We don’t have a value on that.’ So I am asking for value or insurance value—I think we decided that an insurance value is close enough to the mark. Are these antiques or the like? They usually are.

**Ms Costello**—I understand they are contemporary with the house.

**Senator FAULKNER**—They usually have some design significance if they have been purchased by the Australiana Fund. So a purchase price, an estimated value or, if necessary, an insurance value would be helpful. Is that all from the Australiana Fund at Kirribilli House? Is there anything at the Lodge?

**Ms Costello**—No. They had provided a fire guard, but it does not appear to fit with the fireplace, so whether it will stay or not is being considered.

**Senator FAULKNER**—So it is not at Kirribilli House?

**Ms Costello**—No.

**Senator FAULKNER**—Which department has responsibility for the Australiana Fund?

**Ms Costello**—It is a separate and independent company, but our department does provide a grant to them.

**Senator FAULKNER**—What is the current grant to the Australiana Fund?

**Ms Costello**—The 2004-05 grant in aid is \$90,500.

**Senator FAULKNER**—What was last year's?

**Ms Costello**—It was \$87,500.

**Senator FAULKNER**—Do have a record of any Australiana Fund placements in any of the other official establishments—in other words, the Governor General's residences—

**Ms Costello**—No, I do not.

**Senator FAULKNER**—or any other government buildings?

**Ms Costello**—No, I do not.

**Senator FAULKNER**—As far as you know, as far as PM&C is concerned, you are aware of only those that are placed in the Prime Minister's official residences?

**Ms Costello**—Yes. We also supply the secretariat to the Official Establishments Trust, so we may have information through that secretariatship. I am advised that occasionally this is discussed at Official Establishments Trust meetings and it would be tracked in the minutes, but no formal record or inventory is kept.

**Senator FAULKNER**—Do you get copies of the minutes from the Official Establishments Trust?

**Ms Costello**—Yes, my people provide the secretariat service.

**Senator FAULKNER**—So you provide the secretariat service in addition to the—

**Ms Costello**—To the Official Establishments Trust, not to the fund.

**Senator FAULKNER**—You only provide a grant to the Australiana Fund—

**Ms Costello**—Yes.

**Senator FAULKNER**—and secretariat services to the Official Establishments Trust, but that is effectively an agency of the department, isn't it?

**Ms Costello**—I think you would call the Official Establishments Trust a body.

**Senator FAULKNER**—What is it? It is not an executive agency. What do we call it?

**Mr Metcalfe**—I will see if I can find the precise term.

**Senator FAULKNER**—Anyway, it is within the Department of the Prime Minister and Cabinet.

**Mr Metcalfe**—Within the portfolio.

**Senator FAULKNER**—Yes. So when will we be expecting officials of Official Establishments Trust to come to the table at Senate estimates, for example?

**Ms Costello**—There are no officials as such. As I said, one of my staff provides secretariat services to the trust.

**Senator FAULKNER**—So, effectively, the official is you?

**Ms Costello**—Yes.

**Senator FAULKNER**—That is the way it works.

**Ms Costello**—Yes, in terms of being an APS employee, it is one of my staff.

**Senator FAULKNER**—I do not have anything further on that. I will just flag that I will be placing some questions on notice in this area, but I do not want to delay the committee for too long because we would not want to use our spill-over day, Chair.

**CHAIR**—No.

**Senator FAULKNER**—Senator Hill was asking me about which questions had not been answered. The record we have here shows that PM 38—

**Mr Metcalfe**—What was the date?

**Senator FAULKNER**—It was 16 February 2004. This is the question about the functions at Kirribilli House that I mentioned before that has not been answered. Ms Costello and you both provided answers to the committee on this before our short break. That is PM 38 from the additional round in February 2004. In the supplementary round in November 2003, I think you will find that PM 9 has not been answered and that was asked on 3 November 2003; PM 45 was asked on 4 November 2003; and Senator Harradine's question, PM 67, which you are aware of, was asked on 4 November 2003.

**Mr Metcalfe**—It sounds like there might be a discrepancy between us and the committee on one. We will discuss that with the secretariat and see if we can resolve that.

**Senator FAULKNER**—That might be useful. Senator Hill believed that this information should be provided by committee members, but I am sure you would appreciate, Mr Metcalfe, that the huge resources of the Department of the Prime Minister and Cabinet and the expertise that you have there are as nothing compared to what humble members of this committee and our secretariat have. The secretariat have not done a bad job in the few minutes that were available to us, and I thank the committee secretariat for assisting me in that task. It might be worthwhile comparing notes. I think you will find these records—

**Mr Metcalfe**—It sounds like there might be one discrepancy out of the many hundreds of questions that we take on notice, but we will follow that up directly with the secretary to the committee.

**Senator FAULKNER**—I look forward to receiving my answer in relation to the very longstanding question on notice in relation to Kirribilli House and the new question that was placed on notice today.

**Mr Metcalfe**—Chair, we have had one other thing come back that we can provide some advice on.

**Mr Kemish**—During the course of the discussion about Gallipoli and the ANZAC area earlier this afternoon, we undertook to check a couple of facts, and I will now place the responses clearly on the public record. We were asked on what date PM&C received a copy of Mrs Danna Vale's letter to the Turkish environment minister. We received a copy of that letter, which you will recall was dated August 2004, on 9 March 2005. We were also asked whether

that letter was copied to the Turkish ambassador at the time. I remain confident that it was not. It certainly was not formally copied to the Turkish ambassador, and I simply refer Senator Bishop to the Department of Veterans' Affairs for absolute confirmation.

Another question was about a discussion that involved former Australian ambassador, Jonathan Philp, regarding traffic congestion, which was referred to in Mrs Vale's letter. I can confirm that that discussion took place in July 2004. I cannot give a more precise date. To provide one we would have to check with the records of the Australian Embassy in Ankara. In the circumstances, perhaps the most efficient way of following that up is to ask DFAT about the precise date. I can also confirm, as Mr Metcalfe said, that, in addition to the letter from Ms Vale, attachment A was released. I was present at the release of that because it took place during the course of an overseas visit. Only the letter and attachment A were released, simply because that is what we had in legible form at the time of the release. We have referred to the Department of Veterans' Affairs your interest in accessing the other attachments, and again I think the most efficient way to follow that up is through DVA.

Finally, I can advise happily that both Mr Metcalfe and Senator Bishop were correct on the issue of traffic flows in the ANZAC area on Anzac Day. Public traffic flowed into the dawn service site exclusively from the north this year. That was different to previous years, as Senator Bishop pointed out. In fact there was a two-way flow in both directions on previous years, and the decision to change that arrangement was one of the steps taken to address the problem of traffic congestion that had arisen in previous years.

**Senator CHRIS EVANS**—While we are on that question, since this year's ceremony have you had any formal feedback on the questions of congestion and access and an assessment of how it worked this year?

**Mr Metcalfe**—I am sure that an evaluation of this year's ceremony will take place and certainly the Department of Veterans' Affairs would be the most appropriate department to discuss that with. My impression from having been there this year and having spoken with people who were there in previous years is that it did work better this year. The traffic flows improved markedly and the distances walked by people were not as great this year as in previous years. It is a very significant logistical undertaking, as you know, with 16,000 people trying to take buses—

**Senator CHRIS EVANS**—I accept that. One of my electorate officers travelled independently to the ceremony. She has a very different view. I will give her your email address.

**Mr Metcalfe**—I would be delighted to meet your electorate secretary. My cousin, who works in the department, was there as a private traveller and has a somewhat different view as well. People were able to get around but it was still very cramped. In completing our discussion on that point, just for the record I should say that what is quite extraordinary in this whole experience of celebrating and commemorating Anzac Day in Turkey is the hospitality extended by the Turkish government to Australians, New Zealanders and people from many other countries. The fact that we are able to undertake commemorations of that size and scale only happens because of the quite extraordinary friendship that has developed between



Australians and the Turkish people. It is worth recording that, given that we have been discussing that this afternoon.

**CHAIR**—Thank you very much.

**Senator Hill**—I support that from my own experience. I am sure that these difficulties we have been having would be causing as much distress to the Turkish side as they are to Australians. It is a great pity, because it is an important relationship. I, for one, have now had two opportunities to witness the effort and care they put into preserving the site and respecting the cemeteries and everything that goes with them. The level of criticism of the Turks that has come out of this episode has been regrettable. I would like the Turks to know that there are some of us here who really do appreciate what they have done for our war dead and the efforts they put into conserving the site and also to presenting it to those who want to go and be part of these very important ceremonies.

**CHAIR**—Thank you, Minister.

**Senator CHRIS EVANS**—Mr Chairman, with your indulgence could I make a couple of comments very quickly?

**CHAIR**—Yes; please.

**Senator CHRIS EVANS**—I agree with those parts of the remarks that Senator Hill made in relation to the attitude of the Turkish government and people. It is quite remarkable that they, in such a generous spirit, allow us to celebrate what was effectively our invasion of their land. While for us it is commemorated for a whole range of reasons, for them it was a great victory and a singular moment in their history for probably very different reasons. But their generosity of spirit and the welcome that Australians receive are quite remarkable. I acknowledge that their welcome and courtesy are quite remarkable. All Australians should appreciate that.

The other thing to note is the large number of Turkish people who are actually there on Anzac Day at the ceremonies. It quite surprised me on this occasion. There were lots of school groups. There is a real interest in Turkey in that part of their history and the role of Ataturk. It is interesting perhaps in terms of the debate about Islamists et cetera in their own country that there is a renewed interest. There were certainly large groups there on Anzac Day, adding to the crush and the congestion. But it was good to see so many Turkish people there.

But there are real issues, Minister, about the road and other things that need to be addressed, such as access for so many people. We have to work through those policy issues. I do not think by raising them people are being critical of the Turks. If the level of interest is maintained—as it seems as though it will be, looking at the Australians going there—these are issues that are going to have to be addressed. I must say I was quite shocked when I saw the road and what had changed in Anzac Cove. I am not saying that in any political way. I was quite surprised. I have not been involved in the debate in any close way. Anyway, these are issues that have to be resolved. But I accept that they have to be resolved with some degree of diplomacy and with the recognition that this is Turkey and it is their territory and we are their guests when we are there. It is important that we recognise that.

**CHAIR**—There being no further questions for the department, Mr Metcalfe, I thank you and your officers for your assistance. I look forward to seeing you in a few months time.

**Mr Metcalfe**—Thank you, Chair.

[4.21 pm]

#### **Office of National Assessments**

**CHAIR**—Welcome. Mr Varghese, do you have an opening statement?

**Mr Varghese**—I do not.

**CHAIR**—In that case, we will commence with general questions.

**Senator FAULKNER**—Mr Varghese, since the last estimates round, has any work been done in relation to civilian casualties in Iraq?

**Mr Varghese**—I think the basic point that I made when we last met still stands, and that is that there are no authoritative figures on Iraqi casualties from United States, Australian or Iraqi sources. The reason, essentially, is that during Saddam's period there was no infrastructure or reporting system which would give us an easy picture. Since that time, as Iraq has been trying to find its feet, similarly there has been no reporting infrastructure. Therefore, what figures we have vary quite a bit. I think I mentioned to you when we last met, and certainly in a subsequent letter to the committee, that there are a number of non-government sources that try to make estimates of this. To give you some examples, the Brookings Institution runs an estimate, which at the moment stands at between 12,400 and 13,600 Iraqi civilians who have died from acts of war since March 2003, when hostilities began. Iraq Body Count is another US based web site, again drawing from published sources. Its estimate is in the range of 21,000 to 24,000 over that same period. You mentioned at our last hearing the *Lancet* estimate of 100,000. I think I said at that time that I thought that number was very high. The figures I have just quoted to you would appear to support that judgment. The *Lancet* estimate was a bit high. I do not really have anything beyond that, Senator Faulkner, to report to you.

**Senator FAULKNER**—I wonder whether ONA—say, in recent times, in the last couple of months—has undertaken any work to see whether any of these figures could be determined more accurately? In other words, has the issue of establishing the number of civilian casualties been something that your agency has given some priority to?

**Mr Varghese**—Following the last hearing we checked again with the US, which is a source of advice on matters Iraq. They told us what I had indicated at our hearing, which is that they do not have any figures on Iraqi civilian casualties. So the work that we have done essentially monitors those other sources of information which I have just been through. We have also looked at Iraqi sources. The Iraqi authorities are only now beginning to put some material on the public record which covers civilian casualties, but they are not historical numbers; they have related really only to the last month or so.

**Senator FAULKNER**—I have heard similar figures to the ones that you have quoted. You quoted Iraq Body Count: 21,700 to 24,600 as of 5 May 2005. I think that is in accordance with the figures that you have provided to the committee. The statement by the British Foreign Secretary, Jack Straw, indicated that there were in excess of 10,000 as of February

2004; the Sheik Omar Clinic in Baghdad indicated 10,363 as of 8 September 2004, in Baghdad and close surrounds; Amnesty International London indicated in excess of 10,000 as of 8 September 2004; the Human Rights Organisation of Iraq indicated in excess of 30,000 as of 8 September 2004; Iraq government estimates of the Iraqis killed by insurgents only is 6,000 as of 5 April 2005; and, of course, there is the Iraq Index. So it goes on. As you rightly say, some of these figures are available in some published sources and I am, of course, also aware of the work done by *Lancet* and the methodology that they have used.

If you cannot give me additional information in relation to civilian casualties in Iraq, are you able to say whether the Office of National Assessments is able to provide the committee with precise figures in perhaps some other areas? Let us take, for example, journalists in Iraq. Is ONA able to provide the committee with a figure in relation to the number of journalists and media assistants who have been killed?

**Mr Varghese**—I do not have a figure that separates out journalists. The Brookings Institution estimates do include estimates of non-Iraqi civilians which would include contractors. The number they have is 279 in the period between May 2003 and May 2005, so that is over the last two years. Again, we do not have any independent confirmation of these numbers.

**Senator FAULKNER**—Do you know of the organisation Reporters Without Borders?

**Mr Varghese**—I am aware of the organisation. I do not have a number from them in relation to Iraq.

**Senator FAULKNER**—Is it considered a credible organisation?

**Mr Varghese**—I would not want to make a judgment on its credibility because I do not know enough about it to make a judgment about its credibility. I know of its existence.

**Senator FAULKNER**—Okay. So are you able to confirm the Reporters Without Borders report that 58 journalists and media assistants have been killed in the current Iraq war?

**Mr Varghese**—I cannot confirm that. If that is your information, I am sure it is correct.

**Senator FAULKNER**—I know that one person involved with the Australian media, Paul Moran, died in Iraq. I am sure you would be aware of that case, Mr Varghese.

**Mr Varghese**—Yes, I am.

**Senator FAULKNER**—Are you aware of any particular precautions that the Australian government might have put in place to prevent any further deaths there?

**Mr Varghese**—I think that is a question that is probably better directed elsewhere in the government. The responsibility for advising Australians travelling to Iraq is with the Department of Foreign Affairs and Trade. They do that through their travel advisory and other means. I think it is probably better for you to take up the details of that with other agencies.

**Senator FAULKNER**—Which other agencies do you suggest?

**Mr Varghese**—The Department of Foreign Affairs and Trade.

**Senator FAULKNER**—I will do that, but I think it is reasonable to take up these issues of the broader picture with you, because it would seem to me to be core business for the Office of National Assessments. I hope you would accept that.

**Mr Varghese**—The core business for making assessments of threats to Australians abroad is actually not with the Office of National Assessments.

**Senator FAULKNER**—We have talked about civilian casualties, and we can talk about other categories, but I am talking about the assessments of the number of media personnel and people associated with the media who have been killed. According to Reporters without Borders, since 22 March 2003, 58 international journalists have been killed—I think one of the first being the Australian cameraman, Paul Moran. But you cannot confirm those figures?

**Mr Varghese**—No. I have no reason to doubt those figures but I cannot confirm them.

**Senator FAULKNER**—Can you confirm that 29 journalists have been kidnapped?

**Mr Varghese**—No, I cannot.

**Senator FAULKNER**—Can you confirm that four have been executed and two are currently being held?

**Mr Varghese**—No.

**Senator FAULKNER**—Can you confirm that nine journalists have been killed in 2005?

**Mr Varghese**—No.

**Senator FAULKNER**—You have said that efforts have been made to try to investigate the issue of civilian casualties. With journalists, there is obviously a clear public record, as there is—as you have mentioned at previous hearings—for American service personnel. There are clear numbers available, are there not, of those casualties in Iraq? You have been able to report those previously to this committee.

**Mr Varghese**—Fatalities of coalition members of the armed forces is, I think, the one area where we do have very accurate numbers.

**Senator FAULKNER**—Can you share those numbers? You cannot tell us about civilian casualties and you cannot tell us about journalists. Can you tell us about the casualty figures for coalition forces, please?

**Mr Varghese**—Since 19 March, which was the date that hostilities began, 1,800 coalition military personnel have died, of whom 1,600 were American. I have details here of deaths from other countries which I am happy to share with you, if you would like those details.

**Senator FAULKNER**—Yes.

**Mr Varghese**—These are totals that go up to mid-May: the UK, 88; Italy, 21; Ukraine, 18; Poland, 17; Spain, 11; Bulgaria, 10; Slovakia, three; Estonia, the Netherlands and Thailand, two each; and Denmark, Hungary, Kazakhstan, Latvia and El Salvador, one each.

**Senator FAULKNER**—You quoted a little earlier at the commencement of these hearings from the Brookings Institution estimates. Do you consider them credible?

**Mr Varghese**—Their methodology, as I understand it, is to rely on published sources. They have a rule of not counting something until they have two sources on which to base it. To that

extent, there is an element of credibility to it. But my point is that there is no absolutely reliable figure when it comes to these estimates. Some methodologies may be more thorough than others. There was recently a report put out jointly by the Iraqi Ministry of Planning and a UN development program and a Norwegian research institute which provides yet another number, which is that 24,000 Iraqis who have been killed. But there again, each of these estimates relies on different methodologies and different sources.

**Senator FAULKNER**—I know. But this is the Office of National Assessment at the table here. You would be aware of the Brookings Institution Iraq Index. You would know that well, I assume?

**Mr Varghese**—We do.

**Senator FAULKNER**—Do you consider that credible?

**Mr Varghese**—To the extent that it is based on published sources, some of which may be correct and some of which may not be correct. It is credible in the sense that its numbers are based on media reports. You and I can make a judgment about how reliable media reporting is.

**Senator FAULKNER**—If I go to page 15 of the Brookings Institution Iraq Index, I see the estimated nationwide strength of the insurgency has risen from 5,000 in March 2003 to 16,000 in April 2005. Is that right or roundabout right?

**Mr Varghese**—As an estimate of the number in the insurgency?

**Senator FAULKNER**—I assume that is what it means.

**Mr Varghese**—I would not put with any degree of confidence a number on the insurgency.

**Senator FAULKNER**—It interprets the table by providing a note:

U.S. military believe foreign fighters are responsible for the majority of suicide bombings in Iraq. Independent researchers estimate that 44-70% of suicide bombers in Iraq are Saudi citizens. Susan B. Glasser, “Martyrs in Iraq Mostly Saudis,” *Washington Post*, May 15, 2005. Chairman of the Joint Chiefs of Staff, General Richard Myers, said on December 16, 2004 that Saddam loyalist, and not foreign fighters remain the main threat in Iraq.

You quoted at the beginning of your evidence here today the Brookings Institution in a positive way. So I am very interested in knowing whether some of these other figures that they have are—

**Mr Varghese**—I would separate out what Brookings is saying about an estimate of civilian casualties from an estimate of the size of the insurgency. I would not confidently put a number against the size of the insurgency and from an intelligence point of view that is probably a view that is shared by others. When they are estimating civilian casualties, the way Brookings does it is to work on published sources—in other words, essentially media reporting of deaths. That is a different thing from counting the number of people active in the Iraqi insurgency. The two are quite different. I would put more reliability on their estimate of civilian casualties than I would on their estimate of the Iraqi insurgency.

**Senator FAULKNER**—I want to know from you whether it is the view of ONA that things are getting worse in Iraq. First of all, that is why I asked about the strength of the insurgency. They are very stark figures from the Brookings Institution. While you are very

happy to depend on civilian casualty figures from there, you seem less comfortable in relation to the strength of those insurgency figures.

**Mr Varghese**—If you are asking me what my assessment is of the strength of the insurgency, I would say that the trend line at the moment shows a slight decrease. Rates of attack spike at any given interval but, if you compare the trend line over the last six months with the preceding 12 months, it would be trending down. Does that mean that the insurgency is on its way out? I think the short answer is no. The reality is that in Iraq we are going to be dealing with a violent insurgency for some considerable period. Whether we will see the insurgency move up again in terms of a trend line, I am not in a position to say. So when you ask whether things are getting better, that is one snapshot.

You could look at the political environment in Iraq, where I think you could make an assessment that the politics of Iraq is getting better in the sense that the Sunnis, who are driving the insurgency, are now beginning to make a calculation—at least some of them are—that they may be better off in the tent than outside of the tent. They have had a successful election, they have had the establishment of an interim government, which includes all major factions in Iraq—albeit with a longer period of formation than probably most people would have liked. I think they are positives on the political front, but there is still a long way to go.

You can look at the economy and, again, you will see a mixed picture there. You have some of the economic indicators trending upwards strongly and you have some that are bouncing along the bottom. Are things getting better in Iraq is not a simple question to answer. Some things are certainly getting better, others are standing still and, in one or two places, they may be falling behind.

**Senator FAULKNER**—I am not asking for a simple answer. That was why I was dealing with the strength of insurgency first of all. Let us talk about another issue. Let us talk about the number of foreign fighters in Iraq. Is it true, as the Brookings Institution is suggesting, that the number of foreign fighters in Iraq has increased from 300 to 500 in January 2004 to 1,000 in May 2005? Does that accord with your understanding of the situation?

**Mr Varghese**—Just as I cannot offer you a reliable number on the overall size of the insurgency, I cannot offer you a reliable number on the foreign fighter component of the insurgency. The estimates there vary from a couple of hundred through to several thousand, and I am not in a position to make a judgment about at which end of the spectrum the numbers fall. It is the case that foreign fighters are still getting into Iraq. It is also case that the action against the insurgents has included the deaths of a number of foreign fighters. The intelligence picture in Iraq is not clear cut; it is still a very murky intelligence picture and there is still a lot about this insurgency that we do not know.

**Senator FAULKNER**—You mentioned the economic issues. Is it true that inflation in Iraq has increased from 0.6 per cent in July 2004 to 11.4 per cent in February 2005?

**Mr Varghese**—I think one of the difficulties on the economic side is that it is very hard to get precise figures. We are dealing with an economy here which, during the Saddam period of course, did not report on its economic indicators in the way that a normal economy would, and we are now in the period where the Iraqis are trying to build up the institutions of national

government. So I think any figures on the economy for the moment, except for perhaps oil production and electricity generation, are going to remain necessarily quite loose.

**Senator FAULKNER**—I do not think they are very loose figures; they are very precise ones—again, from the Brookings Institution, which basically relies on the figures from US defence briefings, as you would be well aware. So would you consider that the World Bank has credibility when we are looking at an assessment of the Iraq—

**Mr Varghese**—I would, and I think the figures the World Bank itself uses on Iraq are caveated figures. That is all I am saying. I am not arguing with you about the figure; all I am saying is that—

**Senator FAULKNER**—I am not suggesting that you are arguing with me at all.

**Mr Varghese**—when you look at figures in Iraq, you have to bear in mind that we are dealing with an economic reporting system which is still pretty underdeveloped, and therefore whatever figures we may have in front of us should be taken with a degree of caution.

**Senator FAULKNER**—But isn't it true that the World Bank's estimates of Iraq's reconstruction needs were \$9,301 million in 2004 and \$26,518 million for 2005 to 2007?

**Mr Varghese**—I do not have the figures with me, but they sound correct to me.

**Senator FAULKNER**—I am sure they are correct. If you think the economy and casualty rates are difficult things to grapple with, what about the situation in relation to public health in Iraq? Is that also difficult for ONA to come to grips with?

**Mr Varghese**—There are figures available on health. There were, for instance, less than 1,000 primary health clinics before the war and there are now 1,700 established, with more under construction. Infant mortality, which I think you would agree is a key health indicator—

**Senator FAULKNER**—Yes, I would.

**Mr Varghese**—worsened steadily prior to the war: 32 deaths per thousand births. As I understand it, current data is not available, but the improved maternal and child health services are expected to halve the level of infant mortality over the next three to five years.

**Senator FAULKNER**—Aren't the maternal mortality rates in Iraq extremely high? Aren't they 93 per 100,000? And if you compare those to neighbouring countries, I think it is 14 per 100,000 in Jordan and 32 per 100,000 in Saudi Arabia. All these figures are available, you see, Mr Varghese, and I am sure that ONA would be keeping a very close eye on them. I would hope they would be, anyway.

**Mr Varghese**—I am not suggesting that the figures are not available. Both you and I have been quoting figures—

**Senator FAULKNER**—That is right.

**Mr Varghese**—which would suggest that they are available.

**Senator FAULKNER**—What about the rate of hepatitis infection in Iraq over the past two years? Do you have figures on that?

**Mr Varghese**—No, I do not.

**Senator FAULKNER**—Hasn't it doubled—

**Mr Varghese**—I do not have a figure, so I do not—

**Senator FAULKNER**—from 2002 to 2004? Again, these are available from the Brookings Institution estimates, amongst other places. They are sourced from the US Department of Defense in part and from the UN Iraq Living Conditions Survey 2004. Does the UN Iraq Living Conditions Survey 2004 have credibility in the view of ONA?

**Mr Varghese**—I think it is a fairly credible document.

**Senator FAULKNER**—If assessment of civilian casualties is beyond ONA and other agencies, has there been any capacity to make an assessment of casualty rates amongst Iraqi military and police personnel?

**Mr Varghese**—The Iraqi authorities themselves do not provide casualty rates for the ISF. There are estimates available. Brookings, about which we have spoken, estimates that 1,974 Iraqi self-defence force personnel were killed between May 2003 and 15 May 2005. Iraq Coalition Casualty Count, another US web site, estimates that 2,078 Iraqi police and military staff have died in the same period. The Iraqi interior defence and health ministries have only recently started reporting numbers of ISF deaths, so we do not have a comparable figure over that period, but the statistics that they issued on 3 May indicated 42 ISF members were killed in April 2005 and 118 were killed in March. They are the figures I have on those.

**Senator FAULKNER**—Is that both police and military?

**Mr Varghese**—Yes.

**Senator FAULKNER**—Are those figures disaggregated in any of the source documentation?

**Mr Varghese**—Not in the material I have in front of me but that is summary material. I would have to go back to the primary sources to see it is disaggregated.

**Senator FAULKNER**—I would appreciate that, if you would not mind. Could you take that on notice?

**Mr Varghese**—Sure.

**Senator FAULKNER**—Are any other figures available, such as the ones that you have just provided to the committee, that talk here about categories of casualties, to put it clinically—in other words, that talk about Iraqi military or police personnel or civilians and so on and so forth—that you have some level of confidence in?

**Mr Varghese**—Not beyond what we have already spoken about.

**Senator FAULKNER**—To your knowledge, at this stage, beyond Iraqi military and police casualties and coalition force casualties, no other figures are being kept.

**Mr Varghese**—You would then go back to the NGO web site figures that we have talked about, but not beyond that.

**Senator FAULKNER**—But in terms of either Iraqi or coalition government statistics or figures, they are the only categories in which figures are being kept—that is what I am trying to ask.



**Mr Varghese**—That is right, and that joint report that I mentioned that UNDP, the Iraqi planning ministry and a Norwegian research institute published, I think last week, is the other baseline for this.

**Senator FAULKNER**—Do you make public a list of those who are contracted to work for or are consultants with ONA?

**Mr Varghese**—We do not make public the list. We do report on our expenditure on consultancies, as do all public sector agencies, but it is not our practice to make a list of the consultants that we engage.

**Senator FAULKNER**—Why is that?

**Mr Varghese**—I was telling you what our practice is. I do not think we would have any difficulty in giving you information about consultancies.

**Senator FAULKNER**—Is your practice in conformity with other agencies?

**Mr Varghese**—It is.

**Senator FAULKNER**—Is Dr John Gee a consultant or contracted in some way to ONA?

**Mr Varghese**—Yes, he is. He is working for us under a consultancy.

**Senator FAULKNER**—Could you detail the consultancy to the committee.

**Mr Varghese**—Yes, Senator. He is engaged under a contract that we have with his consultancy firm.

**Senator FAULKNER**—I did not want to interrupt you but, to save time, could you tell us the name of the consultancy firm, please?

**Mr Varghese**—It is Bergsoy Consultancy. He is essentially engaged to work on weapons of mass destruction related issues. He acts as an analyst for us on WMD issues. He pays particular attention to the Middle East, although that is not the only area in which he works.

**Senator FAULKNER**—When did that consultancy commence?

**Mr Varghese**—I think he is currently on a contract that started in April, but I would need to—

**Senator FAULKNER**—April this year?

**Mr Varghese**—No, April 2004.

**Senator FAULKNER**—Do you have the precise date available?

**Mr Varghese**—No. I do not have the precise date, but I could certainly provide that to you.

**Senator FAULKNER**—Could you take that on notice, please? Is the consultancy for a limited or specified period of time or is it an ongoing consultancy?

**Mr Varghese**—It would be a 12-month contract, and we would have the option of renewing it or otherwise at the end of that period.

**Senator FAULKNER**—If it was April 2004, that 12 months would be up, would it not? Even with my scant knowledge of the way the calendar works—

**Mr Varghese**—He is still working with us, so I can only assume that we have renewed his contract.

**Senator FAULKNER**—Would you mind taking that on notice as well?

**Mr Varghese**—I will certainly get you the chapter and verse on it.

**Senator FAULKNER**—Thank you for that. Do you have any information in front of you in relation to the value of that consultancy?

**Mr Varghese**—I do. He is on a contract of \$120,000.

**Senator FAULKNER**—Is that an annualised figure?

**Mr Varghese**—Yes. That is the all-up cost.

**Senator FAULKNER**—Could you come back to us on the detail? Has anyone in ONA had any contact with Dr Gee about a possible appearance before the Senate Foreign Affairs and Defence References Committee for its reference into matters relating to WMD? I ask you that question very deliberately.

**Mr Varghese**—Dr Gee has discussed that matter with me. He raised it with me to advise that he had been invited by the committee to appear before it. I said to him that it was a matter entirely for his decision, that it was not an issue on which ONA would express a view, let alone a direction to him. He subsequently advised me of the terms of his response to the committee. So he has kept me informed about his contact with the committee secretariat.

**Senator FAULKNER**—Can you indicate to the committee, please, when your discussion—which you have indicated was at Dr Gee's initiative—took place?

**Mr Varghese**—I do not have the precise date with me. It would have been perhaps last month. It was around the time that he was first approached by the committee.

**Senator FAULKNER**—You might take that on notice also. Did you keep a file note of that?

**Mr Varghese**—No, I would not have.

**Senator FAULKNER**—You might indicate to the committee, in as much detail as you can, what the nature of your communication was with Dr Gee about a prospective appearance. Are you able to provide any more detail than what you have provided?

**Mr Varghese**—He mentioned to me that he had been requested by the committee to appear before it. He mentioned to me the committee's terms of reference. He made the point to me, which I think he subsequently made to the committee, that he did not think that there was much that he could add to the committee's understanding of the issues that he was looking at. He was also in our discussions focused on what, if any, obligations he had during his time with the Department of Defence, when he was engaged on a contract to be part of the Iraq Survey Group. He raised those matters with me, and we discussed them.

**Senator FAULKNER**—And you can assure me that you were able to inform Dr Gee that there would be no repercussions as far as you or ONA were concerned if he appeared before the committee?

**Mr Varghese**—Absolutely. I made it very clear to him that that was entirely a matter for him to decide.

**Senator FAULKNER**—And you can give that statement categorically to this committee?

**Mr Varghese**—Absolutely.

**Senator FAULKNER**—Are you aware of whether Dr Gee had contact with any other officer of ONA about that matter?

**Mr Varghese**—Not to my knowledge. That is not to say that he did not, but not to my knowledge.

**Senator FAULKNER**—Could you check that, please?

**Mr Varghese**—Certainly.

**Senator FAULKNER**—Could I ask you whether you are aware of Dr Gee having contact with any other official about those matters from any other department or agency?

**Mr Varghese**—I think at one stage he wanted to clarify in his own mind what the residual obligations relating to his contract with Defence might have been. I think in that context he would have had a discussion with an officer from the Department of the Prime Minister and Cabinet about the nature of those obligations.

**Senator FAULKNER**—You think he would have, or you know he did?

**Mr Varghese**—I know he did.

**Senator FAULKNER**—Do you know which officer he had—

**Mr Varghese**—I do, but I do not think it is appropriate for me to provide a name.

**Senator FAULKNER**—Why not?

**Mr Varghese**—It is a discussion that Dr Gee had with this person, and it would be up to him to, if he wishes to, reveal the name.

**Senator FAULKNER**—Are you able to say whether it was a senior officer or a—

**Mr Varghese**—Yes, it was.

**Senator FAULKNER**—junior officer? Are we talking about someone at SES level?

**Mr Varghese**—That is right, at SES level.

**Senator FAULKNER**—Normally the names of SES officers are made available. You might care to take that on notice. If you are not willing to provide that name you might, formally or informally, talk to the officer concerned and you might be willing to come back and provide it.

**Mr Varghese**—I am certainly happy to do that.

**Senator FAULKNER**—It is not entirely clear to me why that discussion would take place in the Department of the Prime Minister and Cabinet and not Defence.

**Mr Varghese**—The issue was the obligations on someone on a Public Service contract vis-a-vis parliamentary committees. I think that was the issue. I think PM&C is the right place for that to be discussed. Can I just add to what I said about consultancies that we do publish on

ONA's web site details of consultancies with a value of \$100,000 or over, which I think is Public Service practice.

**Senator FAULKNER**—Thank you. I have nothing further.

**CHAIR**—There being no further questions for ONA, thank you, Mr Varghese and Mr Triffett, for your assistance.

[5.05 pm]

#### **Office of the Inspector-General of Intelligence and Security**

**CHAIR**—Mr Carnell, good afternoon. If you do not have an opening statement, we will go straight to questions.

**Mr Carnell**—I do have a short statement, consistent with the previous discussion with Senator Faulkner. I will touch on five things. Firstly, I will touch on resources. When I last appeared I indicated that additional estimates had provided my office with funding for two new positions and an IT capital amount. Recruitment action is well advanced and I am hopeful that the two new staff will commence work in the office soon. The project to replace and enhance the office IT has been successfully completed. Secondly, I will touch on current work. I have asked the secretariat to give committee members a table, lest I confuse Senator Faulkner, as I did last time. This hopefully makes the numbers clearer.

**Senator FAULKNER**—I am sure the fault was all mine, but that is always appreciated. Thank you very much.

**Mr Carnell**—Nine matters were carried over from the 2003-04 period. Those have all been completed. Initiated in this financial year have been 23 preliminary inquiries and four full inquiries. Twenty-one of those 23 new preliminary inquiries have been completed and two of the full inquiries have been completed. The issue generating complaints to my office continues to be the timeliness of ASIO's security checks for visa applicants, particularly protection visa applicants. ASIO received some additional funding in the recent budget to enhance its immigration related activities, and I understand that DIMIA has also received some additional funding. There was a particular spike of this work—in other words, cases coming across from DIMIA to ASIO—in October-November last year. I know that the ASIO staff have pushed themselves hard to tackle that particular spike of work and have made good inroads. Obviously, I will need to continue to monitor the situation.

Thirdly, I have previously touched on questioning and detention warrants, but, given that the Parliamentary Joint Committee on ASIO, ASIS and DSD is undertaking a review of the operation, effectiveness and implication of those provisions, I will simply note that I made a written submission to that committee and appeared before it last Friday. Fourthly, on legislation, a bill to implement various recommendations from the Flood inquiry and a review of the Intelligence Services Act is being developed, coordinated by PM&C, and the timetable indicates its introduction in the winter sittings. The bill is likely to contain some amendments to the Inspector-General of Intelligence and Security Act, including some to address the issues Senator Faulkner and I discussed at my previous appearance—in other words, what procedures should be followed where an inquiry relates directly to the head of an agency.

Fifthly, and perhaps of keenest interest to some committee members, there is the report into the loss of access to a particular database by some ADF staff in Dili in December 1999. On that matter, follow-up action within the Department of Defence is underway and I understand it is well advanced. The minister has now asked me to prepare an abridged version of my report which takes into account privacy and security issues. It is a matter for the relevant minister—in this case, the Minister for Defence—as to when something of an appropriate nature is released into the public domain. That is in accordance with the Inspector-General of Intelligence and Security Act and is the longstanding practice in relation to inquiries and their outcomes. They are the comments I wish to make.

**Senator FAULKNER**—I have a general comment in response to your opening statement. The tabulation is useful. Thank you for it. Depending on the volume of inquiries you have, it might be a useful thing to provide regularly at the estimates hearings from time to time. For example, from the portfolio of the Prime Minister and Cabinet we get something which saves a lot of time. Ms Belcher from the Government Division produces a tabulated document that outlines details of departmental liaison officers. It does save a bit of time. It is much appreciated. Thank you for that.

**Mr Carnell**—I certainly had in mind that I would routinely provide you with an updated version of this table when I appear.

**Senator FAULKNER**—Thank you.

**Senator CHRIS EVANS**—I was going to ask you or the minister about the progress on the Collins report. I was going to take that opportunity while you were here, but I presume that the answer would largely be fielded by the minister—but I look down and he is gone. Are you able to tell us anything about the progress of that, or should I direct that to the minister?

**Mr Carnell**—I cannot really say more than what I have said in that opening statement. In a sense, the ball is in the minister's court. He has asked me to produce an abridged version of the report. That will not take me long to do, but he is also receiving advice from the Department of Defence about the consequential actions stemming from my report and it is in the end for him to decide when he puts something into the public domain.

**Senator CHRIS EVANS**—Thank you for that. Sorry, Minister; I did not realise you were getting a cup of tea. I did not see you behind me. Minister, you were at pains to stress last time we met that you were keen to have Mr Carnell's report on the Collins matters and the flow of intelligence to our troops in East Timor and related issues finalised as soon as possible, and you were hoping to have as much as possible made public. That was when we discussed it some three months ago. There was some flurry a couple of weeks ago in expectation that the report was about to be released, which proved to be a false alarm. Are you able to help the committee with an update as to where we are at?

**Senator Hill**—My view is that Mr Carnell's report, in a form that meets both security and privacy requirements, should be released as soon as possible. I indicated last November, when I received a further report from him, that he had recommended that certain matters be examined administratively and that matters should be referred to the secretariat in my department. That referral led to various actions, which are almost complete. As soon as they are complete, I would expect to be in a position to release the report that I just mentioned. Mr

Carnell has produced a version which addresses the security issues, but since then there has been discussion with the Privacy Commissioner and others, and also with Mr Carnell and with me, and the result of those discussions is—and I think Mr Carnell is in agreement—that we think a further examination of the previously produced document should be made specifically to address the privacy issues. Once that is done, that will be the report to which Mr Carnell referred a few minutes ago.

**Senator CHRIS EVANS**—I take that you are saying there are two reasons why you have not been able to release the report at this stage: one is the question of the finalisation of administrative action involving certain individuals in relation to the report, and the other is this question of Mr Carnell rewriting or editing the report further, in line with your requests. Is that right?

**Senator Hill**—It really relates to the administrative actions, because it is out of the administrative actions that a particular focus was brought to bear on the privacy concerns. So I need the administrative processes to be completed—which is almost the case—and Mr Carnell, as he has indicated, will produce a report that takes into account the privacy requirements arising out of those administrative actions. Then I will have a document that I should be able to release publicly.

**Senator CHRIS EVANS**—Just so I am clear, Minister: the privacy questions go to whether or not you can release information relating to those administrative actions? Is that what I take you to be saying?

**Senator Hill**—As it relates to individuals that are part of the administrative processes that have taken place.

**Senator CHRIS EVANS**—To be frank, though, this is the discussion we had last time, virtually. What confidence can we have that your strong desire to have this matter resolved is going to be any further advanced than it was when we discussed it 13 weeks ago, when administrative actions were preventing you from releasing the report?

**Senator Hill**—I do not know that you can have confidence—

**Senator CHRIS EVANS**—What can you do to give me confidence?

**Senator Hill**—I would certainly like to bring this very longstanding matter to a conclusion as quickly as possible.

**Senator CHRIS EVANS**—With respect, Minister, that is what you told me last time.

**Senator Hill**—Yes, but the administrative process has taken longer than what we anticipated.

**Senator CHRIS EVANS**—Who has deemed it necessary for the administrative process to be completed before Mr Carnell's report can be released? Is that the basis of legal advice to you, or is that a decision you have just taken?

**Senator Hill**—It is ultimately my decision. I would need to check, but I think it was also advice that I received back at the November time frame, when I released the letter covering the May report.

**Senator CHRIS EVANS**—As you would understand, administrative action inside the Department of Defence is at the core of some of these issues and the length of time it takes for such things to be resolved. Are you confident that there is not another mechanism that is going to further delay the release of the report—an appeal right or a legal action?

**Senator Hill**—I am not completely confident, for the sort of reasons that you have just touched upon. I think it is desirable that the administrative processes be completed before the report is released.

**Senator CHRIS EVANS**—But it is your position that you will not release the report until they have been completed?

**Senator Hill**—That is the decision that I made.

**Senator CHRIS EVANS**—Given that is on the record, that does provide some incentive for maybe some individuals to continue administrative action, doesn't it, potentially?

**Senator Hill**—I think that is probably unlikely.

**Senator CHRIS EVANS**—I do not know; it seems to me that there is within Defence mechanisms an endless array of appeals and activities that delay the final resolution of anything. That has been at the heart of the military justice concerns. I am just trying to get a sense of whether we can have any real confidence that this report will ever see the light of day.

**Senator Hill**—I do not think I would have asked that a version be produced that sufficiently takes into account the security and privacy issues if it were not my intention to release it.

**Senator CHRIS EVANS**—That was your evidence the last time we spoke, but obviously there has been something further that has required Mr Carnell to review his report. Did the Privacy Commissioner actually consider the contents of the draft report, or was this just advice that you sought in general terms?

**Senator Hill**—I have not spoken to the Privacy Commissioner myself. This was advice that was sought by Defence. I am not sure whether the issues were put to the Privacy Commissioner or whether he was shown a copy of the previous document. I would have to check that.

**Senator CHRIS EVANS**—Do you know, Mr Carnell? You were obviously involved in discussions with the Privacy Commissioner.

**Mr Carnell**—I had my own discussions with the Privacy Commissioner's office. I only discussed it in general terms. I certainly did not show them the report or give them an indication of any of the substance of it. It is true that the Privacy Act as it is currently written is very restrictive about what, in accordance with it, can be put into the public domain about Public Service disciplinary matters. My purely personal view is that that is an interesting policy issue—it is more restrictive than I might personally think is appropriate for accountability, but that is the act as it is currently written and enacted by parliament. Generally parliaments and parliamentary committees have acted in accordance with that sort of legislation.

**Senator Hill**—The Public Service Act is really quite protective—presumably, again, for good reasons.

**Senator CHRIS EVANS**—Mr Carnell, are you happy that your report has to be amended in order to meet those privacy concerns?

**Mr Carnell**—I do not see it as a matter of amending it so much as abridging it. I have had one go at it. I am keen that as much as possible remain in there and in the words I originally wrote. I think it does need to be an accurate reflection of what I originally reported, but some minor deletions for security reasons needed to be made. From a privacy point of view, one of the matters that I have had to reflect on is not just the simple removal of names but the removal of information which would effectively identify who particular players were. So there are two things compelling this: deletion; or abridgement by using some alternative words and brackets. I am doing my darnedest to keep that to a minimum so that ultimately you can have as much as possible of it so that you can, hopefully, be satisfied that the matter has been properly investigated.

**Senator CHRIS EVANS**—Minister, is there legal action afoot that is preventing the completion of the administrative action? Have there been injunctions or other legal actions taken out to prevent this?

**Senator Hill**—There have not been any injunctions

**Senator CHRIS EVANS**—So these are normal—

**Senator Hill**—There have been administrative processes and those processes are nearly complete.

**Senator LUDWIG**—These are normal administrative processes within Defence mechanisms?

**Senator Hill**—They are administrative processes within the framework of the Public Service Act, so they are not really unique to Defence.

**Senator CHRIS EVANS**—I think in previous discussions we have not been clear on whether or not persons who might be subject to any action arising from the report were Defence civilians or Defence personnel.

**Senator Hill**—These were administrative processes that referred to the secretary of the Department of Defence. What I am saying is that they are not uniquely Defence issues, but they were matters that had to be addressed by the secretary of the Department of Defence, not the secretary of another department.

**Senator CHRIS EVANS**—But they were required to take action under the Public Service Act rather than under any particular Defence regulations?

**Senator Hill**—That is correct.

**Senator CHRIS EVANS**—I see. Was there action taken against three individuals? There was an indication of that earlier.

**Senator Hill**—There have been administrative actions in relation to three individuals.

**Senator CHRIS EVANS**—And is only one still ongoing or are all three actions still afoot?



**Senator Hill**—All three are still ongoing.

**Senator CHRIS EVANS**—Can you give us any indication of when you hope the report could be released?

**Senator Hill**—I am hopeful that these processes will be completed within a fortnight.

**Senator CHRIS EVANS**—And, if they were, then the only impediment would be Mr Carnell's redrafting of his report, which I suspect will be completed within that sort of time frame.

**Senator Hill**—That is what I am working on.

**Senator CHRIS EVANS**—Is it your intention to show the report to affected individuals before it is made public?

**Senator Hill**—I have not considered that. If I thought there was some issue of natural justice that affected them, I would, but I am not sure that that will be the case, because the efforts that Mr Carnell is making now to meet the requirements of the Public Service Act, the Privacy Commissioner and others that have similar responsibilities might mean that that is not necessary.

**Senator CHRIS EVANS**—Has Lieutenant Colonel Collins been briefed on the contents of the report?

**Senator Hill**—I think he is being kept apprised of the process but I do not think he has been briefed on the content of the report beyond what we said publicly towards the end of last year.

**Senator CHRIS EVANS**—So is it your intention that Lieutenant Colonel Collins and/or anyone else be briefed before the public release of the report?

**Senator Hill**—It was the intention of Defence that he be briefed before the publishing of the report.

**Senator CHRIS EVANS**—You use that in sort of a past tense. Have you changed, or is that when you thought the report was going to be released some time ago?

**Senator Hill**—I have seen a note from Defence to that effect, and I do not know that anything has changed.

**Senator CHRIS EVANS**—So you would expect Lieutenant Colonel Collins to be briefed. Is there anyone else who would be briefed prior to its release? I am of course thinking of those who might have had, for want of a better term—and correct me, Mr Carnell, if I have got the wrong phrase—adverse findings or who might have reason to not enjoy reading the report. Will they be given the opportunity to read the report before it is released?

**Senator Hill**—I think the issues you have raised in relation to three individuals clearly need consideration. I have not yet given that consideration. I have not got the report.

**Senator CHRIS EVANS**—Not having had the benefit of reading the report, I am not sure whether those three are the only three or whether there are other individuals. I do not know the nature of it. I am just trying to understand effectively who will be consulted or who will be allowed access prior to its public release. It seems that this sensitivity in releasing the report

goes to questions of natural justice, how people are treated, privacy et cetera. I am just trying to understand—

**Senator Hill**—That is right, and we have been at pains to respect principles of natural justice. It is obviously a subject of some criticism as a result of that because of the time that these matters have taken. But hopefully it is coming to a conclusion. It has been a very thorough process.

**Senator CHRIS EVANS**—I hope on the second occasion it has. I am not sure that it was on the first occasion. Are you able to advise whether action has been taken against any of those three individuals named—as in, administrative action?

**Senator Hill**—I have said that there have been administrative processes.

**Senator CHRIS EVANS**—I am not sure what ‘processes’ means. That could have been anything. What do you mean by ‘administrative processes’?

**Senator Hill**—I think I can say that actions have been taken.

**Senator CHRIS EVANS**—Are those actions not complete?

**Senator Hill**—They are not quite complete.

**Senator CHRIS EVANS**—We will leave it there. I have waited this long; I can wait another couple of weeks. I do not say that with any confidence that it will be a couple of weeks.

[5.35 pm]

#### **Australian National Audit Office**

**ACTING CHAIR (Senator Murray)**—Welcome. I think this is the first official occasion at which the Senate Finance and Public Administration Legislation Committee can welcome the new Auditor-General and wish him well in his responsibilities.

**Mr McPhee**—Thank you, Senator Murray.

**Senator SHERRY**—Congratulations, Mr McPhee, on your appointment.

**Mr McPhee**—Thank you, Senator Sherry.

**Senator SHERRY**—The ANAO released its annual illustrative financial statements on 14 April last year. They highlight important developments in the latest finance minister’s orders. Can you, or someone, explain to me when you expect to publish this year’s illustrative financial statements?

**Mr McPhee**—The previous Auditor-General took up with the department of finance the role of the Audit Office in producing the document. He was a little concerned about potential conflict in the Audit Office. The previous Auditor-General wrote to the Department of Finance and Administration about the AMODEL accounts, which is an illustrative set of financial statements that the Audit Office has produced. He indicated some concern with independence issues in producing a guide for agencies to produce financial statements and then undertaking the subsequent audit. He raised with Finance the possibility of the department of finance taking over the production of the AMODEL accounts. Finance have

agreed to do that. They have consulted us in the process of the handover. From this year forward, Finance will be preparing those accounts.

**Senator SHERRY**—Will the Audit Office have any input into the preparation or verification of those accounts?

**Mr McPhee**—We will certainly be consulted. We have a reasonably close relationship with the finance department in both the production of the finance minister's orders and the AMODEL accounts. That is, when the department of finance prepares draft finance minister's orders for the finance minister they consult with the Audit Office as to the appropriateness of the requirements et cetera and about any experience that we have which could bear on the drafting of those FMOs. Similarly, with the AMODEL accounts they will consult with us on our experience arising from audit practice and take that into account in the preparation of that document.

**Senator SHERRY**—I have here the copy for 2003-04. Can you comment on the important developments and why you regard them as important?

**Mr McPhee**—You would need to remind me of the nature of those.

**Senator SHERRY**—I can give you a copy.

**Mr McPhee**—Thank you.

**Senator SHERRY**—Perhaps while we are waiting we will go on to a couple of other issues. There was a speech made last year on Friday, 20 May entitled 'Outcomes and outputs: are we managing better as a result?' Are you familiar with that speech?

**Mr McPhee**—Yes; I gave it.

**Senator SHERRY**—I thought you would be familiar with it. In your speech you noted that there had been a number of reports from parliament, the Audit Office and the Department of Finance and Administration identifying potential areas for improvement in the specification and measure of outcomes. Can you elaborate?

**Mr McPhee**—Yes. The Audit Office has done a number of reports, for instance, on performance information. We jointly produced a better practice guide on performance information with the Department of Finance and Administration. As well, of course, this committee and other Senate estimate committees have commented on the nature of some of the outcomes in the past and some of the issues with outcomes, outputs and performance information. So, really, there is quite a body of work out there which suggests that there is room for improvement, as always, in terms of agencies reporting on outcomes and outputs.

**Senator SHERRY**—Can you give me any specific areas where—since you gave your speech, which was not that long ago—you think actions are being undertaken to improve the specification and measure of outcomes?

**Mr McPhee**—I made the comment in the speech that the Department of Finance and Administration has on its work program some work which will be looking at the nature of outcome statements generally across all agencies. It is also important to recognise that agencies themselves continuously update the outcome statement and, in some cases, refine them because in many cases they can be quite broad. One of the things that the finance

department and the Audit Office have been saying for some time is that, where you do have broad outcome statements, agencies should really consider perhaps the use of intermediate outcomes as a step towards the overall outcome. There is continuous improvement going on in that area. As I say, I think the finance department has in mind to look a bit more closely at some of the outcome statements over time.

**Senator SHERRY**—I agree with you that the outcomes are pretty broad. With the various portfolio statements, unless you have a historical knowledge or seek a detailed briefing from the department, the library or some other source, it is difficult to break down outcomes prior to coming to estimates. Can you give me some examples of where you think outcomes can be a bit more specific?

**Mr McPhee**—I can perhaps speak in theoretical terms—which, in a sense, was how I was speaking when I gave that presentation. There are many outcome statements ‘to contribute to’, which is a very broad statement. The desirable end of the spectrum to move to is to get to a position where you get a percentage increase in terms of an impact of a program. We are always very cautious about that, understandably, because, to reach those goals where you get quite specific about outcomes or impacts, it can have significant resource consequences. So you can understand why there is some cautious presentation of outcome statements, but the idea is to get to more clearly articulated outcomes so we know how successful we are being in achieving the particular goal.

**Senator SHERRY**—But a department with an outcome would also have a record of the programs within that outcome, would it not?

**Mr McPhee**—Correct.

**Senator SHERRY**—You could take a department with an outcome of, say, \$1 billion of expenditure and then there may be 50 different programs. So it seems to me that that it is not difficult for a department. They already have that. What is the difficulty for a department to show that within the broad outcome—and they are very broad. Frankly, if you pick up the PBS of any department—I am not referring specifically to the Department of Finance and Administration—and attempt to identify programs within the broad outcome, it is very difficult, is it not?

**Mr McPhee**—I think it varies.

**Senator SHERRY**—I accept that. But it is difficult in many of the portfolio budget statements to do that.

**Mr McPhee**—One of the continuous challenges that Finance has in providing guidance to departments is where to get the balance. These documents are reasonably wordy as they are. But I take your point that members of parliament generally would probably find it helpful to have more information about the programs which make up outcomes.

**Senator SHERRY**—Departments have that information at the moment; it is just generally not included in the portfolio budget statements.

**Mr McPhee**—It is not universally included.

**Senator SHERRY**—Yes. At the end of the day politicians who ask in estimates generally can get that information. I am actually more concerned about the broader public and those who have an interest in these matters.

**Mr McPhee**—I think you are right. Many departments have responded to questions from committees and other sources and included program information. But I could not tell you that it is consistently or universally applied.

**Senator SHERRY**—Let us assume there is overspending on a program—for whatever reason. It might have, say, \$100 million for a specific program. The cost of that program increases—for whatever reason—to \$150 million in a financial year and is obviously blowing out or exceeding the program cost. That is not reported on an ongoing basis, is it? It is part of the broad outcome. As long as the broad outcome does not increase in cost, a department can juggle the program costs within the broad outcome.

**Mr McPhee**—There is a range of possibilities. Certainly, where there is an administered appropriation for a particular outcome, that is constrained to the amount of the particular outcome. But, as you say, within that there can be various components which can be up and down. Agencies have the ability to move departmental funds between outcomes as well so, while they seek to provide the best estimates they can within the body of the appropriation legislation, there is flexibility to move funds between outcomes there. So there is a degree of flexibility.

**Senator SHERRY**—I am not disagreeing with the flexibility issue so much. But it is whether we are able to identify—and the department would know and Finance would, or should, know—a blow-out in a particular program when it is encompassed within a broad outcome.

**Mr McPhee**—Yes. You are right. Finance would generally know. But it would only be if the agency gave you the splits that you would get to understand that situation.

**Senator SHERRY**—It would be picked up sooner or later but it will be later than would otherwise be the case, isn't it?

**Mr McPhee**—If it is only reported at aggregate level, there is a question as to whether it would be picked up through the public documents.

**Senator SHERRY**—So it may not be picked up at all?

**Mr McPhee**—It may not be picked up at all.

**Senator SHERRY**—Do you think that is a desirable practice?

**Mr McPhee**—As I said before, the extent of the breakdown within outcomes which is provided needs to be balanced. There is a question of the balance between the amount of information we provide parliament and the bulk of the documents.

**Senator SHERRY**—At the end of the day, isn't it up to those who read and identify the material to determine whether it is too much or too little?

**Mr McPhee**—Indeed. It is a matter for committees to have a view on if they feel strongly about that.

**Senator SHERRY**—One of the criticisms since we moved to accrual accounting is the difficulty in identifying specific program expenditures within the portfolio budget statements.

**Mr McPhee**—Yes. I would just make the point that the accrual accounting can be split out from the outcome/output frame work. The two go hand in hand but they should be separated.

**Senator SHERRY**—So from a practical point of view, in terms of publishing specific programs within the broad outcomes, the information is there but it is simply not published at the moment?

**Mr McPhee**—It is simply not published universally at the moment.

**Senator SHERRY**—Sorry: it is not published in some areas at the moment.

**Mr McPhee**—Yes.

**Senator SHERRY**—I will come back to that when we have finished these questions about your speech. You also noted that there were 199 outcomes for 145 agencies, and you indicated that quite a number of agencies have only one outcome. How do you determine the optimal number of outcomes for any particular agency? Is there anything to guide us about the optimal number?

**Mr McPhee**—I think that is a matter for judgment by the responsible minister. Take the Audit Office: we have two outcomes—one to improve public administration, which is fundamentally about our performance audit role, and another to provide assurance on financial statements. That is a clear and obvious outcome we seek to deliver on as well. For our agency we have two outcome statements but, as you say, some have only one outcome statement and it is really a matter of judgment as to what is appropriate.

**Senator SHERRY**—Also in the speech you highlighted the relationship between outcomes and appropriations, namely:

Only 9 percent of all appropriations were restricted to specific outcomes in 2003-04.

Can you elaborate on that?

**Mr McPhee**—As you will know, many programs are funded through special appropriations which have their own legislation in place, and it is the legislation itself that determines the appropriation. Equally, as I said before, where an agency has multiple outcomes, departmental funding is intended to be spread across multiple outcomes. So there is quite a constrained number of appropriations which are limited to one outcome. That was one point. Another point I think is important to mention—

**Senator SHERRY**—It just seems to me that nine per cent of all appropriations are restricted to specific outcomes. Have you done any work on how that compares internationally?

**Mr McPhee**—No, I have not. But it is very important to understand that the output-outcomes framework is a generic framework, and it accommodates the legislation that parliament has enacted since Federation. So it needs to be suitably flexible and it is a pretty useful framework. Another thing I said in the presentation was that, globally, many governments are moving towards an outcomes orientation because of the focus on

performance. We may still have some work to do, but it is a model that has wide acceptance within the OECD countries.

**Senator SHERRY**—Just as a matter of interest, do you have any consultative relationship with other comparable bodies in comparable western countries?

**Mr McPhee**—Yes. There is an organisation called INTOSAI—International Organization of Supreme Audit Institutions.

**Senator SHERRY**—It sounds very authoritative—‘Supreme Audit’.

**Mr McPhee**—It is a very authoritative body. Auditors-General and their equivalents from around the world belong to that body and meet every two years.

**Senator SHERRY**—Do they give any general guidance or indications?

**Mr McPhee**—Not directly—that I am aware of. Just for completeness, I should say there is also an Asian equivalent of that body called ASOSAI. In Australia we tend to take the lead from the OECD as to public sector developments and they provide some very good information on who is doing what and what the trends are.

**Senator SHERRY**—That organisation, presumably, would publish ongoing reports of developments in comparable jurisdictions?

**Mr McPhee**—The OECD?

**Senator SHERRY**—Not the OECD, the other organisation. I have forgotten the acronym already.

**Mr McPhee**—I do not pretend to be an expert on INTOSAI. They do produce reports and share information in terms of issues, but it tends to be more about audit independence.

**Mr Cochrane**—It is very much auditing based in that they try to encourage a world standard, if you like, in terms of the auditing standards that apply to auditors-general around the globe, and it is very much directed towards helping the developing countries get to that high standard in the conduct of their audit work.

**Senator SHERRY**—Do you know where that is headquartered?

**Mr Cochrane**—INTOSAI?

**Senator SHERRY**—Yes.

**Mr Cochrane**—There is no building or organisation. It is an association of auditors-general. There is a secretariat, if you like, that organises the meetings and so forth, but it is not a permanent organisation.

**Mr McPhee**—It is in Switzerland, from memory.

**Senator SHERRY**—If there is a secretariat, there must be someone acting as a general coordinating body.

**Mr Cochrane**—I am not aware of who that is at the moment.

**Mr McPhee**—The president of the Austrian Court of Audit is the secretary-general of INTOSAI.

**Senator SHERRY**—Okay. We have already touched on it, but you noted that 73 per cent of all appropriations are under ‘special appropriations’ which are allocated to particular outcomes. Can you explain the relationship between ‘special appropriations’ and ‘outcomes’?

**Mr McPhee**—The outcomes tend to be broader. Taking the salary of the Auditor-General, for instance, that is a special appropriation. We allocate the salary and allowances of the Auditor-General to the two programs that the Audit Office has. Generally speaking, a special appropriation will be more constrained than an outcome statement.

**Senator SHERRY**—Going back to the illustrative financial statement—do you have a copy of that there?

**Mr McPhee**—Yes.

**Senator SHERRY**—I have a couple of questions. I raised the issue of ‘important developments’ in the finance minister’s orders. Can you comment on ‘important developments’?

**Mr McPhee**—They appear to be refinements to the FMOs, based on the prior year’s experience. For instance, one which has been something of a challenge is the classification of items between ‘departmental’ and ‘administered’. In the FMOs some clarification was made of the differences between ‘departmental’ and ‘administered’ classifications. I have to say that Finance is doing further work in this area because it is a significant issue and we need to continue to refine the model. A fairly significant issue is which items are considered to be ‘departmental’ and which are ‘administered’. You would appreciate the more comprehensive disclosure relating to special accounts that followed an audit report by the Audit Office, where both Finance and the Audit Office felt that the disclosures could be improved, so we have required that through the FMOs. Also, there used to be a requirement to disclose expenditure against each special appropriation. As you will appreciate, some acts have many appropriating clauses and that introduced a level of detail into the financial statements, so there was a change in the requirement to disclose the expenditure only against the act to give a more global perspective. So it is really just an update of what has changed in the FMOs for the preceding year.

**Senator SHERRY**—Given the finance department’s role, which you outlined earlier, is it expected that the finance department will be reporting on the changes to the finance minister’s orders in future years? It will presumably appear in the annual report of the Department of Finance and Administration.

**Mr McPhee**—I think this is part of the actual document that includes the finance minister’s orders. I think this is an extract from that.

**Senator SHERRY**—This will be published by the department of finance?

**Mr McPhee**—This is published by the finance department each year. I think this is the introductory overview.

**Senator SHERRY**—But the department of finance will be releasing that, not the ANAO.

**Mr McPhee**—The department of finance will be releasing the finance minister’s orders as well as the AMODEL accounts, or the model accounts, for agencies to follow.



**Senator SHERRY**—I will just turn to a specific report: Audit report No. 38 2004-05: *Payment of goods and services tax to the states and territories*. My colleague Senator Carr has got some general questions.

**Senator CARR**—Mr McPhee, welcome to the job. I trust you are enjoying it.

**Mr McPhee**—Thank you. I am.

**Senator CARR**—It can only get better for you, I am sure. My reading of Budget Paper No. 2 suggests to me that you have got an additional allocation of \$12.8 million over the next four years. This, I presume, is to provide additional services. Is that correct?

**Mr McPhee**—That is correct. We received additional funding for contract manage work. That is work where we use one of the firms to assist us in doing the audit of, say, Telstra. The other funding was for the Defence financial statements. We did receive additional funding for that.

**Senator CARR**—I will let you know there will be some questions about the Defence report later on when we come to specific reports. To what extent does the additional \$12.8 million actually cover the extra costs incurred? Presumably you have to meet the efficiency dividend, don't you?

**Mr McPhee**—Correct. We do meet the efficiency dividend, as do all other agencies, but these were our estimated costs involved with those particular items. We did receive the funding we sought.

**Senator CARR**—That is for those particular projects, but what about the rest of the program that you have undertaken? Do you think you have sufficient funding to cover that as well?

**Mr McPhee**—We did seek additional funding for a couple of other items. We made our proposal available not only of course to the central agencies, as we always do, but also to the JCPAA . The Chair of the JCPAA made a statement in the House about the Audit Office resource position this year, including the fact that we actually had sought about a million dollars a year to fund some extra IT capability and also what we call contract in, where we get individuals in to help us on audit teams. But we were not successful in getting access to additional funds for that million dollars per annum.

**Senator CARR**—I take it this is what was behind the letter that your predecessor wrote to the Prime Minister. Was it?

**Mr McPhee**—Certainly the Audit Office had bid for those funds. I did read in the paper that that letter was circulated. But certainly the items were those that I mentioned, as well as a proposed solution to funding the additional rent for Centenary House. That was the third item.

**Senator CARR**—A report in the *Australian* on the 8th claims that the letter said there had been cuts to the budget and that programs to be cut 'are essential to the sustainability of my office, and are not discretionary'. Are they the words that your predecessor used?

**Mr McPhee**—I cannot confirm that but what he would have meant by 'not discretionary' would be that these were considered necessary to undertake our financial statement audit work program. So it dealt with our financial statement audits, where the Auditor-General was

acknowledging the greater use of information technology and that, as a result, we needed to do more work in that area. With the market conditions as they are, we did need some additional resources to contract in resources—and the price has gone through the roof just lately—so he was seeking additional funds for that as well.

**Senator CARR**—Did he get that?

**Mr McPhee**—No, he did not get those.

**Senator CARR**—So you are actually short, aren't you?

**Mr Cochrane**—I would like to make the point for absolute clarity that the letter that was written by Mr Barrett was actually sent before any of our budget proposals were considered. So we have a situation where we subsequently put the budget proposals in, some have been accepted and some have not.

**Senator CARR**—Yes, but it is quite clear based on that letter that Mr McPhee's predecessor believed that there had been a substantial shortfall in the funding required to undertake core functions.

**Mr McPhee**—Certainly to undertake the financial statement audit that is correct. Yes, he argued strongly for those resources.

**Senator CARR**—The audit of financial statements is a core function, isn't it?

**Mr McPhee**—The audit of financial statements is an important part of our office.

**Senator CARR**—Would you say it is a core function?

**Mr McPhee**—Absolutely.

**Senator CARR**—Have you received a reply from the Prime Minister?

**Mr McPhee**—No, we have not received a reply.

**Senator CARR**—So you have not received a reply from the department or from the Prime Minister?

**Mr McPhee**—No, from neither the department nor the Prime Minister.

**Senator CARR**—Does that surprise you?

**Mr McPhee**—The budget is a fairly busy time. We were certainly informed of the outcome of our process.

**Senator CARR**—You certainly know your budget now—that is true.

**Mr McPhee**—Yes, we do know what we are receiving.

**Senator SHERRY**—But there was a specific letter.

**Senator CARR**—This is a pretty unusual letter. When was it written?

**Mr Cochrane**—It was written on 28 February 2005.

**Senator CARR**—So they have had plenty of time to reply.

**Senator Hill**—Perhaps they read it in the newspaper.

**Senator CARR**—Senator Hill, are you here to assist the agency? I thought they were independent of government.

**Senator SHERRY**—He is reading a newspaper.

**Senator CARR**—You are trying to discover all the IT for the defence department, are you?

**Mr McPhee**—We were made aware of the outcome.

**Mr Cochrane**—As we worked our way through the budget process obviously we had dialogue with PM&C. They informed us of the progress of the proposals as we were going through the total process.

**Senator CARR**—I take it you think that some of the aspects of the report are inaccurate?

**Mr McPhee**—Which report was that?

**Senator CARR**—The report which appeared in the *Australian* on 8 March. It implied that you already knew your budget allocation.

**Mr McPhee**—We have not aligned the newspaper article to the letter that Mr Barrett wrote.

**Mr Cochrane**—We were certainly not aware at that stage of what the budget outcomes would be. That was a long time before the real process began.

**Senator CARR**—The article says:

The confidential letter, a copy of which has been obtained by *The Australian*, reveals that the audit office has been told by the Department of Prime Minister and Cabinet that its 2005-06 budget allocation will fall millions of dollars short.

**Mr Hawley**—The letter actually said that, while most of the proposals had been supported, three of the proposals had not been supported by the department. That is how the letter actually went. So we went through this normal budget process where we put in a bid and then it was discussed. I think, as the Auditor-General has already said, Mr Barrett was just highlighting to the Prime Minister that he had some concerns about it.

**Senator CARR**—Are you prepared to table the letter?

**Mr Hawley**—I would have to take advice from the Auditor-General.

**Mr McPhee**—It is not normal that we would do that.

**Senator CARR**—There is quite a detailed report of the letter in the *Australian* and there appears to have been a misunderstanding as to some points in it.

**Mr McPhee**—I would be happy to compare the article with the letter and advise you where the article might have gone astray.

**Senator CARR**—I am just providing you with an opportunity to clear the air on this matter.

**Mr McPhee**—I appreciate that. I think we will—

**Senator CARR**—Decline the offer?

**Mr McPhee**—let you know.

**Senator SHERRY**—Mr McPhee, you used the expression earlier—I forget the context—that something had ‘gone through the roof’. What was that in reference to?

**Mr McPhee**—That was just a reference to the hourly rates that we have to pay commercial contractors. As you know, finance professionals are in great demand at the moment.

**Senator SHERRY**—Yes.

**Senator CARR**—What is the variation in the rate—the increased rate—that you have to pay for contracting auditors?

**Mr McPhee**—Because we have a peak at the end of the financial year for a few months, it is best not to staff up to that level to cope. We run the staff at an optimum level and then contract in additional financial skills to help us through the busy period. The price we pay for those people is expensive.

**Senator CARR**—Would it not be cheaper to employ more people?

**Mr McPhee**—The model we work on is to try to optimise that and not staff to the peak. We would like to employ more people. We are trying to employ more people, but it is a very competitive market. But we will never staff to the peak, as you will appreciate.

**Senator CARR**—I understand that. You say that you would like to employ more people.

**Mr McPhee**—In the financial area.

**Senator CARR**—For the audit purposes, for these budget statements. How many additional people do you think you require?

**Mr McPhee**—Upwards to 20 people.

**Senator CARR**—So, to meet that gap, you have to employ consultants or contractors. Is that essentially the argument?

**Mr McPhee**—That is correct.

**Senator CARR**—But the market price for those has gone up.

**Mr McPhee**—It has gone up.

**Senator CARR**—So you are getting squeezed at both ends. You do not have the money to employ the people but you do not have the money to—

**Mr McPhee**—We have reallocated funds, but it is a pressure.

**Senator CARR**—Yes.

**Senator SHERRY**—Can you give me an example? You talked about the costs going through the roof. They were your words. What are we looking at in the consultancy contract area—10 per cent or 20 per cent?

**Mr Cochrane**—Generally, between 10 per cent and 20 per cent is a good figure. For example, we had an average rate of pay of about \$125 per hour in 2003-04. Generally we are finding that, in 2004-05, our contract rate is about \$151 per hour. So there is quite a substantial increase in the market, and that is reflective of the wider demand, as Mr McPhee said, on the accounting skills market. It is a fairly hot market.

**Senator SHERRY**—You have that pressure and you would also have the pressure problem of being able to recruit new staff, presumably, against the prevailing market rate—which, presumably, has gone up as well.

**Mr McPhee**—That is correct. Our people are also very skilled people and they are in great demand by other agencies.

**Senator SHERRY**—So you have retention issues?

**Mr McPhee**—Yes, we have retention issues.

**Senator MURRAY**—Apparently we got you on the cheap.

**Senator CARR**—Is it right that you are 20 people short?

**Mr McPhee**—Upwards of 20.

**Mr Cochrane**—When we are short somewhere we contract in resources, but we also contract in an additional work force around the end of the financial year just to top up for that peak period. So there are two categories which are quite interchangeable.

**Senator CARR**—Given that you have had a budget bid for additional support for the financial statements, are there any financial statements that have been audited late as a result of staff shortages?

**Mr McPhee**—No.

**Senator CARR**—So what is the effect of the skills shortage that you are experiencing within the Audit Office?

**Mr McPhee**—We have actually reallocated at the margin additional resources to our financial statement program and then we have contracted in additional staff to meet the demand.

**Senator SHERRY**—If your contract prices are going up between 10 per cent and 20 per cent—going through the roof—and you are struggling to retain staff and recruit staff, and your revenue for 2005 is estimated to be \$63.255 million and revenue from government appropriation funding has increased from \$60.774 million to \$61.879 million, something has to give. Something is being squeezed somewhere. And, on top of that, there is an efficiency dividend, is there not, of one per cent which has just been increased to 1.25 per cent?

**Mr McPhee**—That is correct. I will just pick up on one word. You mentioned that we are struggling to attract and retain staff. I would not like to use the word ‘struggling’. It is a challenge, as it is for many agencies, but we have some very good staff.

**Senator SHERRY**—I am not criticising the quality of staff.

**Mr McPhee**—I appreciate that. I just wanted to be clear about that. We have looked at some of our other spending that we had planned to see where we can reallocate the funds to make sure the financial statement work does not suffer. We have had a very productive senior group meeting where we got together and worked through the issues and we are pretty confident we can manage it through this year.

**Senator SHERRY**—So you are reallocating resources. You say you are maintaining your commitment to financial statements. Where are you reallocating resources from?

**Mr McPhee**—The first area we looked at was our own corporate overheads.

**Senator SHERRY**—Such as?

**Mr McPhee**—Such as IT systems development or deferring certain expenses.

**Senator SHERRY**—Such as?

**Mr McPhee**—We have a list of them. I might ask Mr Hawley to give some illustrations.

**Mr Hawley**—Through the corporate ones that Mr McPhee mentioned, we are deferring some intranet projects. Our own intranet had to be improved to make sure we could work through it more quickly. We have deferred that now. There is generally reduced professional development—the more discretionary, if you like, as opposed to technical projects—all of the stuff to try and improve our staff. We have reduced that on the margins as well. Again, we have not gone into the detail of it but where we budgeted for people to spend a certain amount of money on professional development we have reduced the amount. We did have quite a big record-keeping project that we wanted to work through. We are deferring that at the moment and looking at how else we could do it within our own resources without having to spend a lot of money. They were the main things within the corporate area.

**Senator CARR**—What about other projects or program work? Have you had to defer any of those?

**Mr Cochrane**—We have deferred some automation, if you like, of the performance audit function. We were going to upgrade our methodology there. We have deferred that for a few years.

**Senator CARR**—What about examination of government expenditure?

**Mr Cochrane**—In the performance audit area we have just trimmed off, if you like, some work. It is a very gentle trimming at the moment.

**Senator SHERRY**—What do you mean by gentle trimming?

**Mr Cochrane**—We have just dropped the number of performance audits we were expecting to produce in the performance audit area by a few audits for the year.

**Senator SHERRY**—Such as?

**Mr Cochrane**—I do not think we can put names to the audits we are dropping. We have just retargeted the amount of work we are doing.

**Senator SHERRY**—You say you are dropping them. Are you moving a number to the next year or are you just dropping them off the schedule altogether?

**Mr Cochrane**—Just dropping them off the schedule.

**Senator SHERRY**—Such as?

**Mr Cochrane**—From memory, we usually do about 46 mainstream performance audits a year, and we will trim that back in the PBS figures to 44. It does not mean that that will be the actual number produced, because we have a bit of a history of slightly exceeding our PBS targets anyway. But it does mean that we are planning a small reprioritisation of funding from the performance audit area to the financial audit area.

**Senator CARR**—If the parliament or a committee was to request—because I understand that you have a process whereby you approach committees—an audit of the Regional Partnerships Program, for instance, for which there has been considerable controversy, would you be able to accommodate that request in this current budget environment or would you have to defer that?

**Mr McPhee**—We would have regard to the other work that we are planning to do and try to prioritise the requests and the programs. It would not necessarily mean that that audit would not be undertaken.

**Senator CARR**—But other work will have to be reprioritised.

**Mr McPhee**—Other work may be reprioritised, but it is important that I say as well that we also agreed that we will look at the efficiency of our own practices to see whether we can get some productivity improvements going. We are confident that across both sides of the office we can make some improvements ourselves. So, while the mathematical calculation of the number of performance audits that they could suffer is as Mr Cochrane has mentioned, if we can make some productivity improvements through benchmarking our financial statement work or looking at the time we take on performance audits and get some improvements going there, it may be that we can retain the original target number.

**Senator SHERRY**—Earlier you mentioned IT deferral and professional development. They are all things that improve productivity and efficiency, yet in some areas you are deferring what would possibly lead to some gain in productivity and efficiency.

**Mr McPhee**—Yes. The basic position we have to work with is that we must resource the financial statement work to the required standard. There is no question about that. If we wanted to run with the IT proposals then we would probably have to make a more severe cut on the performance audit side. I think it was our collective judgment that we could defer the IT developments without having a serious impact on efficiency. I take your point that there could be an impact, but our judgment was that we could live with it.

**Senator SHERRY**—I notice that the average staffing level for 2004-05 was 170. Then for 2005-06 it is 180. That is an increase of 10.

**Mr McPhee**—Yes, that is on the financial statement for the program.

**Senator SHERRY**—Then, in the forward years for employees' provisions, on page 79, in 2005-06 about 180 staff is budgeted to cost \$8,335 million.

**Mr McPhee**—Yes, correct.

**Senator SHERRY**—But, if you look to the forward estimates in 2008-09, that drops to \$7,752 million. Salaries will obviously have to go up as well, so that seems to me to indicate that there is going to be a substantial reduction in staff by that period.

**Mr McPhee**—At the moment we are actually running a little rich on staff overall. We are probably a little higher in our corporate and our performance area than we had targeted for, so we can afford to drop staff numbers at the margin. But you are correct. We have to fund salary increases through productivity improvements.

**Senator SHERRY**—That is right.

**Senator CARR**—So there is no supplementation for salary increases?

**Mr McPhee**—We do get a level of supplementation but it is a small percentage increase.

**Senator CARR**—What is the EBA—the enterprise agreement—increase proposed?

**Mr Cochrane**—The CA.

**Senator CARR**—The certified agreement.

**Mr Cochrane**—We have not struck a figure. Our CA is due for renegotiation next May. Frankly, given the pressures in the market, it would probably be around three to four per cent, but we have not struck a figure. I want to emphasise that.

**Senator CARR**—So what is the effect of three to four per cent if you were to just run by the average market?

**Mr McPhee**—It is roughly a million dollars.

**Senator CARR**—What is the supplementation for that?

**Mr McPhee**—I could not tell you that.

**Mr Hawley**—It would be almost impossible to tell. The efficiency dividend—the point you were making earlier, Senator Carr—does come in.

**Senator CARR**—Sure. What I am trying to establish is that the previous auditor wrote a letter to the Prime Minister, highlighting the pressure on your budget. You have advised us that there was no reply to that letter but there was a slight increase of \$12.8 million in your budget, in the budget papers, to undertake specific work with regard to Telstra and Defence, but that the financial audit statements and other contract work may well put additional pressure on them and that several millions of dollars of requests were not granted.

**Mr McPhee**—Correct.

**Senator CARR**—On top of that, we have a situation now where at least a million dollars per annum has to be found for salaries—

**Mr McPhee**—Correct.

**Senator CARR**—which supplementation will not cover.

**Mr McPhee**—It certainly will not cover the full extent of that, that is for sure.

**Senator CARR**—And you have the efficiency dividend on top of that?

**Mr McPhee**—Correct.

**Senator CARR**—The net effect of all of that is that you will be several millions of dollars short in your budget.

**Mr McPhee**—Yes. The position we have arrived at is that we can manage the situation in 2005-06; however, it becomes more challenging in the out years, and that is what we need to work on with the—

**Senator CARR**—The truth of the matter is you can manage anything if you reduce your services to meet the budget that you are provided with. That is true, is it not?

**Mr McPhee**—That is true, in the absence of other efficiency improvements.



**Senator CARR**—That is right.

**Senator SHERRY**—That is right, and you are deferring some of those efficiency improvements because of—

**Mr McPhee**—Some, but not all, Senator.

**Senator SHERRY**—No, I accept it is some. Senator Carr and I are concerned; we are very concerned.

**Senator CARR**—I just want to get to this point, though, Senator Sherry. The point that the former Auditor-General was making seems to be to be right on the money: there may well be political pressures being placed on your office that mean that you cannot perform your functions properly.

**Mr McPhee**—The chair of the JCPAA—and I have to say the JCPAA has been very supportive of the audit position and concerned to ensure also, as this committee is, that the Audit Office has sufficient resources—in a statement tabled in parliament said that it was very important that this was not a case of ‘penny wise, pound foolish’. He was drawing out the benefits of the audit work, the assurance that parliament and the government take from it, the value of our better practice guides and the value of our audit work to inform agencies of where controlled weaknesses may occur. He was making the point, basically—as I read it—that the Audit Office is not a bad investment in terms of having integrity around public administration.

**Senator CARR**—As an anti-corruption device I would have thought you were front and centre in terms of what should be funded.

**Mr McPhee**—I subscribe to that perspective, but I have to say it is also my judgment that this year we can get by. Not every agency, not every minister, not every cabinet minister gets the resources they seek in the cabinet process. My assessment is that we can get through, but, as I say to you, the challenge will be the following years and the point that you have picked up on in terms of resourcing for staff and other funding pressures we have that we will need to find a way through. It is my job to see how far I can get with that.

**Senator SHERRY**—The truth is you are going to face a massive squeeze. I am not an accountant, but I know from looking at these figures. Your employee salary levels in the forward estimates drop from \$8.335 million down to \$7.752 million, which is an eight per cent drop—and you are struggling against a market increase in wages and salaries of 10 per cent plus, so you are really going to be hit by a squeeze.

**Mr Hawley**—Could I just mention it is actually on page 78 of the PBS that you will get those employee lines. I think your point is still the same point; it is just that these are the liabilities on our provisions in that one, but on the other side you have got the extra expenses, which would be our employee costs.

**Senator CARR**—You have had no assurance whatsoever from the government that these issues are going to be attended to.

**Mr McPhee**—I have opened the batting in terms of raising the issue—not for this year. This year—

**Senator CARR**—I understand that. You are new to the job and I appreciate that, but your predecessor took this unprecedented step of writing to the Prime Minister in these terms—and I can only speculate as to how it found its way into the public arena. It suggests to me that the previous Auditor-General was clearly desperately concerned about the situation.

**Mr McPhee**—He was saying it was absolutely essential for the financial statement audits. We agree with that and we have made sure that the financial statement audits get these resources, even though they were not provided as additional funding in the budget.

**Senator CARR**—Something else has to give as a consequence.

**Mr McPhee**—Something else has to give, yes.

**Senator CARR**—It will only get worse unless there is additional funding made available.

**Mr McPhee**—And/or we can find a contribution to that efficiency or productivity.

**Senator CARR**—Which means job losses, does it not? It has to mean job losses.

**Mr McPhee**—There are a range of areas. It is not just in positions. It can be in corporate overheads.

**Senator CARR**—Sure, but you have already done all that; you have already deferred that. One million dollars a year plus your efficiency dividend must mean job losses.

**Mr McPhee**—There are some challenges, and I am taking them up.

**Senator CARR**—I am sure you are. It just strikes me that, if you are already 20 positions short under present arrangements and you are facing those sort of savings, there must be substantial job cuts to come.

**Senator Hill**—This is not the time for a debate, Chair. If Senator Carr wants to go out and put out his press release, he can put out his press release. He is here to ask questions, and the answer he got to his question was that it will be challenging—not that there will be job losses.

**Senator CARR**—How many jobs would you be able to provide for \$1 million per year? How many people could you employ for \$1 million a year?

**Senator Hill**—You could ask that of every agency.

**Senator CARR**—I am asking this agency.

**Senator Hill**—If you give them more money they can employ more people. We all have to work within a budget.

**Senator SHERRY**—Senator Hill, have you actually looked at these figures?

**Senator Hill**—What figures? I have looked at the rise they got last year. They are getting increased funding. They would like more; that is not unusual.

**Senator CARR**—Mr McPhee, how many of your standard—

**Mr McPhee**—Off the top of my head, probably 12 to 15.

**Senator CARR**—Is that per million?

**Mr McPhee**—Yes.

**Senator SHERRY**—So on these figures, in 2008-09 you are going to have 30 fewer staff.

**Senator Hill**—No, they are not going to have 30 fewer staff.

**Senator SHERRY**—If these figures are maintained, there are going to be fewer staff.

**Senator Hill**—If you get an increase in funding, how does that mean that you have to have fewer staff?

**Senator CARR**—Read the forward estimates—that is the point.

**Senator SHERRY**—Senator Hill, if you had not been reading the *Australian* you would have listened to the problems and heard about the cost pressures—

**Senator CARR**—That is probably the problem—you read the *Australian* too often.

**Senator SHERRY**—in the market that have to be paid for to attract and retain qualified staff. If you had not been reading the *Australian*, you would have listened to the evidence.

#### Proceedings suspended from 6.31 pm to 7.48 pm

**Senator MURRAY**—On the theme of costs and how you tackle them, my first area covers contracting out for services that you cannot provide or would rather not provide and the cost of those services. I have been very interested by private sector moves in the legal fees area, where there has been a significant shift by large users of legal services to move away from an hourly time sheet approach—which I think has been to the detriment, frankly, of that profession—to more of a job rate. They have been able, so the newspaper reports say, to achieve savings of up to 30 per cent by playing the majors off against each other with the fear of lost business and against New Zealand legal firms. With the harmonisation and greater consistency of accounting standards across borders and the fact that some of what you pay for is advice as opposed to ‘tick-bird’ activity, is the Audit Office considering whether there are cost savings to be made by looking at this avenue of cost reduction and by seeing whether job rates might work out more effectively than traditional time rates?

**Mr McPhee**—We contract out work through tender processes. I will get Michael Watson, the group executive director in charge of the financial statement area to comment in more detail, but we do seek to get the best-value approach to the contracted out work.

**Senator MURRAY**—In my business life, regrettably, I spent millions through various legal firms—and I mean that—and it was almost impossible to change the way they operated. I was absolutely fascinated by a sudden shift, which has been reported, in the ability to get better deals out of them. I wonder whether that is possible in the accounting profession as well.

**Mr Watson**—By way of introduction—I am trying to understand the question—in the context of the Australian National Audit Office we avail ourselves fairly significantly of contracting out with the major firms, whether PricewaterhouseCoopers, Ernst and Young or KPMG. We primarily use them for the provision of audit services. They, like us, use time-charging and billing type systems worked on hourly rates and six-minute intervals. We do not really use them for legal per se—

**Senator MURRAY**—No. I am drawing an analogy, and that is what you need to understand. The legal system in this country is run on exactly the basis you outlined for the accounting profession. But if the reports are accurate—I am working on quite widely

publicised reports in the last month or so—because of a commonality in law across the Tasman and because of their ability to use their buying power some corporates have been able, they claim, to get reductions of as much as 30 per cent in their overall legal costs.

Because of the move to common accounting standards internationally and because of the greater pressures that are able to be applied to the big four in particular in terms of work, my assumption is that there may be a possibility for large users of accounting firms to use some of the techniques that have been used in law to reduce costs. If you have not thought about it, my question simply would be whether you would go away and have a look at it, because it is a new development.

**Mr McPhee**—The Audit Office has sought to bundle its work to get a pretty good outcome. While, for instance, the audit of Telstra—which we manage but we outsource the more detailed work—is put out as a particular body of work, we also certainly used to have what we called the small states contract where we had a range of smaller agencies in the Australian states and we used to put that work out to contract as a body of work to tender. So we do have parcels of work, not necessarily single jobs, where we seek to get economies of scale. The particular difficulty at the moment is that, because of the international financial reporting standards, the whole market wants to use advisers to help it to prepare statements as well as to audit. It is very hard to drive a bargain at this point in time because of the significant demand for skills. We expect that to pass and we will continue to look for ways of driving our dollar further.

**Senator MURRAY**—This is speculative on my part, but could you keep your eyes open to what is happening in that parallel profession to yours?

**Mr McPhee**—Yes. I also read with interest that article about the New Zealand competition. It was an interesting perspective, so we will certainly do that.

**Senator MURRAY**—Following on in that vein is the question of sharing costs—and you have already alluded to that where you have joint responsibility with the states. But, as you know, there is quite a lot of government activity which is now carried through as a service provision through third parties, it is outsourced—for instance, Job Network and that sort of thing. They are required as entities to have their own auditors if they fall under the Corporations Law but also often under the state incorporated associations laws. Is it possible or is it a feature of your thinking that you can shift any of your audit requirements onto their statutory or standing auditors?

**Mr McPhee**—We cannot shift our statutory responsibility, as you will appreciate, but we can encourage, for instance, greater control environment within the entity—we can encourage the greater use of internal audits. That potentially can impact on the amount of work that we do.

**Senator MURRAY**—Let me put a proposition to you on the way I am thinking. Let us suppose that job provider A is the entity concerned and they have an auditor appointed because they are incorporated. That auditor would automatically be required to verify their financial statements, their assets and so on. You in turn on behalf of the Commonwealth would be interested as to turnovers and throughput of the service provision and that the assets available are capable of providing the service for which you have contracted. I would assume

that their auditor doing standard audit work would be able to verify many of the things you would look for to make sure that the service is capable of being provided—for instance, the number of employees and that they have the assets that they say they have to provide the services they can. I am ignorant on this—and I am not afraid to expose it—but I would not like to see double auditing, where you are auditing work that has already been audited in those respects.

**Mr McPhee**—I can assure you, Senator Murray, we do not do that double auditing. We would look for the controls that the department has in place to get assurance about performance by the service providers but we would not be in the area of verifying that service provider's balance sheet or financial results. We would be verifying the service that they are providing back to the Department of Employment and Workplace Relations. That is the extent of our interest.

**Senator MURRAY**—Is it possible to get their auditor—just using my hypothetical example—on a contracted basis to do some of your performance audit functions? I ask you this because, if you use the economist's thinking, you go to the marginal return: for them adding on a bit of extra work can be done at higher profits but at low cost and for you of course it is low cost and a good return. Is it possible to do that sort of thing?

**Mr McPhee**—We normally would not. As I said, if it wanted to get additional confirmation or additional assurance, we would look for the department to gain that without us expending any further resources of our own. So we would not even look to the marginal cost. If we felt it was important, we would say to the department, 'You should be getting that assurance,' because it certainly does not directly relate to our financial statement work. It may impact our performance work, but again we would see it as part of a controlled environment that the department has a responsibility to establish in the Job Network. So we would not go that additional step that you are talking about.

**Senator MURRAY**—You can see from my questions that what I am groping towards is a feeling that the Audit Office is prepared to think as laterally as possible to meet what is an undeniably pressured cost environment. I want to be assured as a member of this committee from this side that you are doing just that.

**Mr McPhee**—We do quality assure our own work, but we are looking to do some additional benchmarking as well to make sure we have our audits attuned to address the business risks in the most appropriate way. We will continue to do that, but we are always searching for a better outcome. I have to say that that is not only on the financial statement side but also on the performance side. We have some areas where we think we can make some improvements in ourselves. We are searching. We are conscious that we tell other agencies how they might improve their own performance and, as an agency that does that, we need to have our own performance subject to fairly stringent review as well.

**Senator MURRAY**—The Audit Office as far back as when you were Deputy Auditor-General has had conversations with various Senate committees and parliamentary committees concerning some of the difficulties you have in auditing third parties or non-government agencies. I have always assumed that that adds an extra cost burden because of the extra effort

you have to make to access the information you need. Is that still a problem? Are there still issues concerning your audit of contracted-out services causing you higher costs?

**Mr McPhee**—I will say a few words in response to that and I might ask some of my colleagues if they would like to add anything. The biggest change, with the support of the various parliamentary committees, was to have the finance procurement guidelines include a fairly heavy suggestion that agencies include standard contractual clauses that give the Audit Office access to third party providers or contractors where we need to have that. That has been an enormous change. It was quite a battle in the early days, but now there seems to be a level of acceptance of that. In the work we do in agencies, when we look at their procurement arrangements, I think I could say that most agencies have the clauses in there. Quite frankly, if they are not there, it is more inadvertent oversight than a resistance to that position.

**Senator MURRAY**—Has that made access easier?

**Mr McPhee**—Yes. Also, even the private sector community that deals with the public sector now has come to an understanding about the role of the Audit Office. I do not detect that it is the issue that it was a few years ago, but I will ask Warren Cochrane, the Acting Deputy Auditor-General, to comment on that.

**Mr Cochrane**—I think the point needs to be made first of all that we needed that access for areas where we felt the department was not actually monitoring the contracts well enough and where there was an audit risk. We felt that we needed to have access in order to check where the contractor was at with providing services to the Commonwealth. We do not do it as a matter of course.

**Senator MURRAY**—That was from both the financial and the performance sides, wasn't it?

**Mr Cochrane**—Whichever power we are using—it was a general provision in the contract that the department or agency—

**Senator MURRAY**—The point I am making is that it was not just a question of wanting to go and make sure that your performance audits were up to speed; your concern was also that you were not able to ascertain on the financial statements side that the service that had been contracted for had been provided in full as contracted?

**Mr Cochrane**—Exactly. We do not follow through with the contractor as a matter of course. We would only do that if we felt that the department did not have proper control over the contractor. If we have doubt about it, we would then go to the contractor, look at their records and match them back to where the department thought the contractor was at. Generally, the power is there and it is an important power. But it is a fall-back power, to use if the audit risk is there. It is working well and we have not had any denials of access since the provisions have been put into the procurement guidelines. But I must say that we are not testing it every day. It is only on occasion that that issue comes up.

**Mr McPhee**—If I could add to Mr Cochrane's response, our focus is and continues to be the administration by Australian government agencies. The focus is still on Commonwealth administration, so we are not looking to see how the third party provider administers itself; it

is always with a focus on how the agency is managing a particular arrangement. It is quite an important distinction.

**Senator MURRAY**—Yes, but I hope it does not mean that services that were formerly provided by the Commonwealth and now provided by a third party are less monitored with respect to taxpayers' money. You do not mean that, do you?

**Mr McPhee**—Not at all. Our first point is to ask: how is the agency managing that service provision through the contractual arrangement? We would go to the provider only if we felt we were not getting enough information from the principal agency.

**Senator MURRAY**—I want to ask you briefly about the GST. Is it still the opinion of the Audit Office that the GST is a Commonwealth tax?

**Mr McPhee**—Yes, it is.

**Senator MURRAY**—Of course, if it were a Commonwealth tax it would be quite proper for the Treasurer to threaten the states with withholding it. If it were a Commonwealth tax he could do that, couldn't he?

**Mr McPhee**—I guess our perspective is only on the accounting treatment rather than on the tactical issues.

**Senator MURRAY**—As you know, I just wish to make the point that, if it really were a state tax, he would not be able to threaten them, because it would be their tax, not his.

I move on to identity fraud. As a result of the budget papers, a series of articles have appeared in the newspapers, saying that the government's announced plans to tackle identity fraud and the risk that provides to both the community and the Commonwealth have been shelved, delayed or deferred—I cannot remember the exact wording. From the perspective of the Audit Office, my understanding is that you have a focus on the area of identity fraud and you will continue to do so. The result of government decisions that they might have taken about such preventive measures has not affected your own forensic and preventive work, has it?

**Mr McPhee**—No, it has not. In some of our performance audits we do look to the level of evidence that agencies seek to identify recipients of benefits or passports. We do it as part of our performance audit coverage in the main.

**Senator MURRAY**—Have you highlighted it in your own internal mechanisms as an early warning that you want to watch for, because, as you know, financial institutions and others have really lifted their alertness in this area? Is the Audit Office doing the same with respect to each of your various audits?

**Mr Cochrane**—The short answer is yes, in a number of the performance audits we have done over the last few years—for example, in the Medicare area. We are doing one at the moment on TFN, which we are very close to finishing. We have looked at the identity fraud issue as part of those audits. In the back of our minds we also have the need to tackle, in the medium term at least, an audit on identity fraud as an issue across the Commonwealth. We are still working towards getting a task up to look at that area and driving it from the development of Commonwealth policy through the Attorney-General's Department.

**Senator MURRAY**—My last area of general questions is about international accounting standards as they apply to the public sector. We have been acquainted over the years with progress reports in that area. Could you give us a brief summation of how you think that issue is progressing and where we stand at present?

**Mr McPhee**—The time line for Commonwealth agencies is the same as applies in the private sector. The first year in which the IFRSs will be applied will be 2005-06. There are a range of issues. They do not fall evenly in departments, but we are working with Finance and with agencies to ensure they can be as well prepared as they can be in this area.

**Senator MURRAY**—Are there any alarm bells ringing, or is it progressing as you would expect?

**Mr McPhee**—The agencies, particularly those with some significant balance sheets, tend to be the ones that are immediately affected. So, yes, it does fall unevenly and there are some challenges for particular agencies.

**Senator MURRAY**—You had identified the usual suspects: Defence and others?

**Mr McPhee**—I do not know about the usual suspects.

**Senator MURRAY**—They are the big agencies.

**Mr McPhee**—Certainly the big agencies. Defence has particular issues.

**Senator MURRAY**—And they have very complicated statements.

**Mr McPhee**—Yes.

**Senator MURRAY**—You are being careful in your response, and I respect that. I would expect the bedding down to be difficult and to have its bad moments, but—to mix metaphors—there are no icebergs emerging that the ship might hit?

**Mr McPhee**—As I said, within Defence—and we have to work it through with that department—there are some particularly big issues. Particularly when you add the additional requirements of the international standards on top of the remediation work they doing, together with the DMO separation, it is an enormous financial reporting workload. I would not want to underestimate the significance of the issues that have to be dealt with.

**Senator MURRAY**—Through the chair, I would like to make a request to you, Mr McPhee. At the next estimates hearings, whenever they are—in November or October, somewhere around there—could you give thought to having an opening statement and bringing us up to date with that issue, just so that we can get a kind of rolling progress report.

**Mr McPhee**—I would be very pleased to do that.

**Senator MURRAY**—Thank you.

**Senator SHERRY**—I have a couple of questions on three specific audit reports. First, I go to Audit report No. 38 2004-05: *Payment of goods and services tax to the states and territories*—just to let you know, I also have some questions on the administration of the super surcharge, which I asked a few questions about last time—and Audit report No. 42 2004-05: *Commonwealth debt management follow-up audit*. Audit report No. 38 2004-05: *Payment of goods and services tax to the states and territories* states:



Up to the end of 2003-04, the Department of the Treasury ... paid almost \$123 billion (including \$8 billion in Budget Balancing Assistance (BBA) ... to the States.

Is that correct, based on the analysis of Audit report No. 38? I understand that when the GST was introduced the Commonwealth gave the states a guarantee that none of them would receive any less under the new scheme than under the old arrangements, and that is known as the guaranteed minimum amount. I also understand that the Commonwealth makes up the difference through the balance payment known as budget balancing assistance—BBA. That is correct, isn't it?

**Mr Boyd**—That is correct.

**Senator SHERRY**—The report notes:

Treasury estimates that no State will require BBA in 2004-05.

Can I confirm that 2004-05 was the first year when the state required budget balancing assistance?

**Mr Boyd**—At this stage, until 2004-05 is concluded, we could not say. The final calculation in terms of whether BBA and an update payment are required is done in early July.

**Senator SHERRY**—But on present indications there will be no BBA in 2004-05?

**Mr Boyd**—That is the case.

**Senator SHERRY**—Could I confirm that 2004-05 was the first year since the GST was introduced that the states received at least as much as they would have received under the pre-GST arrangements?

**Mr Boyd**—That appears to be the case for each state. Of course, in earlier years some states had already stopped receiving BBA.

**Senator SHERRY**—The report notes that, while the calculation of the states' GST entitlement is straightforward, the calculation of the budget balance assistance is more complicated. Can you elaborate on why it is more complicated?

**Mr Boyd**—Essentially the GST calculation has only four variables in it. It is a quite straightforward calculation dividing up the amount based on various determinations made, for example, by the Australian Statistician. The guaranteed minimum amount is more complicated, because essentially it is designed to calculate what states have received under a range of various Commonwealth contributions under the prior regime. The BBA is quite simple in basically taking the GMA less the GST, which gives you the BBA. But the GMA itself has a much larger number of variables which are more complex in and of themselves.

**Senator SHERRY**—Are those more complex factors detailed in the report?

**Mr Boyd**—They are. Figure 1.1 in the report essentially explains the components of the guaranteed minimum amount. There is a further discussion in table 2.1 which actually outlines the components of the guaranteed minimum amount. And on top of that, in the appendix to the report—it is in chapter 2 of the report—in table 2.2 it actually goes through the various inputs and where the data are sourced from, which we have verified, to look at whether the GMA calculation was correct.

**Senator SHERRY**—The report notes that, to calculate the GMA and the BBA, Treasury uses a Microsoft Excel spreadsheet. The report says:

The spreadsheet was developed in-house with limited resources and without adequate consideration being given to alternatives.

Can you elaborate on that?

**Mr Boyd**—Essentially it is to do with the complexity of the GST—as I say, the GST calculation itself is quite simple, but the GMA as part of the broader GST calculation is quite complex—and the importance of that calculation being correct. Whilst there are a number of variables into that, as we outline in the report, with the spreadsheet itself, with the number of links and the number of data sources, it is quite a complex calculation. If you examine the GST legislation, you can perhaps understand why that is the case—simply to accommodate a number of prior regimes providing funds to the states to calculate what would have continued to occur under that. That regime no longer continuing, it is quite complicated. In terms of the Microsoft Excel approach, what we would have expected—our normative approach—would have been to actually consider the best way of going about that and to have gone through a design process, designing the system and how all the interrelationships would work and then building upon that. What we are commenting on in the report is that that process did not appear to have occurred in the Department of the Treasury.

**Senator SHERRY**—So what are the shortcomings in that approach?

**Mr Boyd**—One of the things we talk about in the report is that over time the calculation may need to change. There have been some small changes but, for example, if you have not actually designed some schematic form as to how the spreadsheet fits together and works and what the interrelationships are, you can make a change in one part and not realise the flow-on effects of that change elsewhere. It is a pretty standard design process to build up a model for how it is going to work, to test it, to trial it out, and then to actually implement the system around that.

**Senator SHERRY**—Have you had any explanation from Treasury as to why they did not develop a more sophisticated and more accurate spreadsheet?

**Mr Boyd**—Treasury has commented to us on the time available for it to actually undertake this work. We do not agree with Treasury that there was insufficient time for that. There was not a great amount of time between when the final documents were signed and the GST was introduced, but there was, in our view, a sufficient lead time between when the initial principles were announced and when the drafts of the intergovernmental agreement were developed to be able to start working from that point in time. As I mentioned, with the sheer quantum of funds involved, we are looking for a fairly considered process for this system, approved at a high level.

**Senator SHERRY**—Is Treasury going to revise the model?

**Mr Boyd**—Essentially, in terms of our recommendations going forward, we have two points. The first thing is that, as it presently stands, the last year that GMA is required to be calculated is 2005-06. That is the last year it is required to be calculated, but clearly, from the perspective of government, there is some interest in knowing, going forward, to what extent the states are ahead of where they would have been under the prior regime. We think that,

even though there may be no legal reason to continue to calculate the GMA, there is likely to be a policy reason, if nothing else. The second thing is that that may indeed be extended—the 2005-06 period.

**Senator SHERRY**—What if a revised model for the calculations revealed underpayments or overpayments in the past?

**Mr Boyd**—In terms of the past, we examined the last three years. We are confident, based on our work, that those years were correct. Obviously, we did not examine the entire period the GST has been in place.

**Senator SHERRY**—The report notes that the ANAO was unable to identify any evidence of a formal risk assessment process—either at the commencement of the GST or later—addressing such issues as the consequence of data corruption. Can you elaborate on that?

**Mr Boyd**—The thing with any IT based system is that there are risks involved. Some of the things we looked at were the integrity of the data, the protection of the data and the ability of people to access the spreadsheet—some of the simple things. For example, through Treasury's network arrangements, only people in that particular unit should be able to access the spreadsheet. Having said that, there should generally be only a limited number of people actually able to amend and modify the spreadsheet. Whilst there is a password for the spreadsheet, it had not been changed since the spreadsheet was actually implemented. Usually with passwords, you change them regularly so that they have some integrity.

**Senator SHERRY**—Are you saying that that increased the potential for someone to be able to change the model?

**Mr Boyd**—It did increase the risk.

**Senator SHERRY**—The calculations within the model.

**Mr Boyd**—It did increase the risk, yes. Of course, we are not suggesting that there was necessarily any intent on the part of Treasury officials to do that. It is simply that, from our perspective, with an Excel spreadsheet, Excel itself is not purpose designed for this. We are not saying that the correct answer would have been a purpose designed application. Our original point was that, in deciding how you go about this, we would expect those sorts of options to be canvassed, and that did not appear to have happened. Having gone down that path with Excel as they did, there are various things you could have done within Excel that the department had not done—for example, locking cells that should not be changed.

**Senator SHERRY**—With a project of this importance and magnitude, you would have expected a much more thoroughly developed model and greater security in terms of passwords?

**Mr Boyd**—Which is essentially what the recommendations are about. If you like, there are two streams. First, given the current model and where it is at in its life cycle, we are not advocating that at this point in time Treasury should develop an entirely new model. What we have said is that next time they are in these sorts of circumstances they need to more thoroughly consider what is the best option and how to go about developing that.

**Senator SHERRY**—Was there any contact with state governments about the spreadsheet, the model and the calculations?

**Mr Boyd**—There were. We had particular contact with the South Australian Treasury, who do some work on their own to try to satisfy themselves that the moneys they are receiving are in the rough area of what they would expect. The difficulty with that is that, as a quality assurance mechanism, whilst most of the parameters that can be used in the calculation are publicly known, some are not known until later in the period. So, whilst that may give the South Australian Treasury some confidence that what they are receiving is, if you like, in the ballpark, from our perspective that is not a great control for the Commonwealth to satisfy itself that it is making the correct payments at the correct times to all states and territories.

**Senator SHERRY**—You mentioned South Australia specifically. Did the other states have any input into or ability to check the calculations that were made?

**Mr Boyd**—No. I should clarify that South Australian Treasury were not checking Treasury's calculations. They were independently performing their own recalculation to get some assurance themselves that the moneys they were receiving were in the order of what they were expecting to receive.

**Senator SHERRY**—But, to come back to my question, did other states—including South Australia, obviously, from what you are explaining—actually have the ability to check the inputs into the spreadsheet?

**Mr Boyd**—No. The spreadsheet is within Treasury and is not shared with the states and territories.

**Senator SHERRY**—Would you have expected it to be shared with the states?

**Mr Boyd**—No. It is Treasury's responsibility to calculate this in accordance with the intergovernmental agreement. We would expect that that is Treasury's responsibility—to make sure that it is calculating the correct amounts.

**Senator SHERRY**—I understand that it would be Treasury's responsibility, but if a state wants to check on the accuracy of figures calculated, it would seem to me reasonable that it should have access to the calculations and the modelling.

**Mr Boyd**—As far as we are aware, none had requested access to the model.

**Senator SHERRY**—I move to report 39 on administration of the super surcharge. I asked a few questions about this at the last estimates—and a lot more of Treasury. I want to follow up that and the admissions by Mr Carmody. Mr White, are you dealing with the response?

**Mr White**—I will deal with it. I was not aware that you asked questions of us last time, but I was not here.

**Senator SHERRY**—I think I might have done.

**Mr Cochrane**—You asked me.

**Senator SHERRY**—But there was a lot more intensive questioning of Mr Carmody of the tax office, as you may have seen subsequently.

**Mr Cochrane**—I think at the last estimates hearing we commented on the super surcharge in terms of its impact on the financial statements. Since that last estimates hearing we have tabled the performance audit report into the area.

**Senator SHERRY**—The ANAO estimates that there is between \$360 million and \$750 million in uncollected surcharge revenue associated with those backlogs. That is correct, isn't it?

**Mr White**—That is correct.

**Senator SHERRY**—Have you seen the tax office evidence?

**Mr White**—No, I have not.

**Senator SHERRY**—But they elaborated on the problems. I am just wondering—

**Mr White**—We did an extrapolation at the time based on that data—I think it was in August—to try to calculate a figure. But my view is that there would be some hundreds of millions. It is a fairly broad range figure that we put in there.

**Senator SHERRY**—Yes, I understand that. It is a broad range. If you look at the tax office evidence, they admitted to very substantial problems, and they could not calculate it at that point in time.

**Mr White**—No.

**Mr Cochrane**—At the time we did the report they were in agreement with what was in the report.

**Senator SHERRY**—Yes. Do you have any more precise figures from ANAO's point of view at this point in time?

**Mr White**—Not at this point in time because most of it relates to the exceptions and following up the exceptions. As part of the financial statement audit at the moment we are working through with the tax office to determine what they are doing about those exceptions.

**Senator SHERRY**—Yes. I was going to get to progress thereon.

**Mr White**—Because we have not been back in there to do further work, that was our estimate at the time.

**Senator SHERRY**—I think Mr Carmody admitted on the transcript that there were over 230,000 exceptions that they had uncovered.

**Mr White**—Yes. They have a project in train, with around 160 staff—I am not sure of the exact number but I think it was around 160—working through.

**Senator SHERRY**—Yes, we got some evidence on that. The problem had apparently gone back seven years.

**Mr White**—That is right, and that is the problem for them, because they did not start following up the exceptions.

**Senator SHERRY**—On that, what is your assessment of the tax office taking seven years to follow up the backlog?

**Mr White**—The report was critical. In audit-speak, it was not well administered. Our main criticism was that the exceptions were not followed up. The ATO have advanced various reasons as to why they did not follow them up. I suppose we could sit here with the benefit of hindsight, but they have created all sorts of problems by not following up those exceptions.

**Senator SHERRY**—Can you think of any other tax where such a significant amount of revenue involved, whatever the final figure is, has not been followed up for seven years? I cannot think of one.

**Mr White**—I cannot. I have had involvement with various tax audits over the last five years and I think that this had not been a very well administered program.

**Senator SHERRY**—That is right. For a period of seven—

**Senator Hill**—It was complicated, wasn't it?

**Mr White**—It was complicated, and we have put it in our report that there were complications. The commissioner wrote to the Auditor-General—something that does not normally happen on our performance audits. But in his response to us the commissioner stated that he considered that the tax office had not performed to the high standard that he and the community expect and that they are working to address shortcomings.

**Senator SHERRY**—I agree. I thought he was going to resign on the spot, actually. He was so distraught about this and some other backlogs that have come to light.

**Senator Hill**—It is the 'Beattie response', isn't it? He doesn't resign, though.

**Senator SHERRY**—No, he did not resign. Perhaps the minister responsible for the tax in the first place should have considered his position. I want to get on to whether there has been any follow-up on the collection of the backlog of tax that goes back for seven years. Have you had any liaison since the release of the report?

**Mr White**—We are doing some work on the financial statements, but, no, I cannot tell you what the outcome is at this stage. They have got a team that is working through those exceptions.

**Senator SHERRY**—The ATO advised the ANAO that all the backlog exceptions would be processed by 30 June this year.

**Mr White**—That is correct. To the best of my knowledge, that is still the case.

**Senator SHERRY**—But you do not know at this point in time.

**Mr White**—At this point in time I do not know. I think they must be getting closer to it.

**Senator SHERRY**—It was not the subject of this report, but there were some other areas with significant back payments—for example, SG compliance payments that had to be made that I am still getting complaints about. Do you have any understanding of that backlog of payments?

**Mr White**—No, I do not, but we may on the financial statements.

**Senator SHERRY**—There is a new officer coming to the table. Does that indicate that you have some knowledge of this?

**Mr Watson**—No. I can only say that, following your line of questioning, there are three issues as far as the financial statements are concerned. There is superannuation guarantee, superannuation surcharge and general interest revenue. There are some big numbers, as noted in the performance audit report, and there are big numbers in the financial statements. The fiscal 2004 financial statements were qualified on those three areas. We are currently working

with the tax office to nail down the number on superannuation surcharge, which I think was 320-plus last year. By about July we will know what those three variables are and we will cut a journal entry and correct them. All the indications are that they are making good progress to close this issue. The various taxes, by their very nature, are very complex and that is part of the reason why the scorekeeping around them has been difficult.

**Senator SHERRY**—We have an issue of tax revenue going back seven years. There is also the revenue which is effectively to be paid to individuals for their back superannuation guarantee payments.

**Mr Watson**—Yes.

**Senator SHERRY**—Mr Carmody claimed that he did not know about this. I accepted at face value that that was correct. How can a tax commissioner not be informed for seven years by his subsidiary officers that such significant problems were ongoing?

**Mr Cochrane**—I think Mr Carmody was very annoyed about that particular point. He saw it as a failure of the corporate governance of the ATO in that area and took some pretty drastic action to make sure that it does not happen again. He was genuinely surprised by the audit report and took very significant action immediately it came to his attention.

**Senator SHERRY**—He said that. The chain of command must have broken down significantly for subsidiary officers, who must have known the problems, not to report them to the tax commissioner. If it was a minor matter, I could understand, but with such major risks to revenue and substantial payments owed to individuals vis-a-vis the SG, I was so surprised that it was not communicated to him.

**Mr Cochrane**—As I understand it, what was actually happening was that they had a controlled system as part of the corporate governance arrangements where the line managers would sign off, saying that the administration in the area was up to scratch, basically. That would go through the CFO, and in turn the tax commissioner would be assured that the internal controls around all those business lines were working properly. In this case, the assurance that was being passed up the line was not a realistic assessment of the position they were actually in. That was part of the remedial action that the commissioner took in looking at that superannuation business line and making some changes.

**Senator SHERRY**—We will get an update from Treasury and Tax next week on how it is all going. I have a couple of quick questions on report No. 42, on debt management, and then I have finished. I think that number is correct.

**Mr Boyd**—It is No. 42.

**Senator SHERRY**—In that report, table 2.1 on page 24 sets out the performance of the cross-currency derivative programs. Could you confirm that the economic gains on the cross-currency derivative program from 1987-88 to 1995-96 was approximately \$2 billion?

**Mr Boyd**—To be honest, I have not added up that subset of the table. I can tell you that in total from 1987-88 to 2003-04 it was \$84.9 million.

**Senator SHERRY**—Okay. Let us go through it.

**Mr Boyd**—I can do the maths now if you wish.

**Senator SHERRY**—I am not criticising you, but let us go through each year, starting at 1987-88 through to 1995-96. Could you give me the approximate figures for each.

**Mr Boyd**—In 1987-88 there was a loss of \$61.3 million. In 1988-89 there was a loss of \$99 million. In 1989-90 there was a loss of \$12.3 million. In 1990-91 there was a loss of \$120.7 million. In 1991-92—the first year with a gain—there was a gain of \$348.3 million. In 1992-93 there was a gain of \$146.4 million. In 1993-94 there was a gain of \$264.4 million. In 1994-95 there was a gain of \$266.8 million. And in 1995-96 there was a gain of \$1.3073 billion.

**Senator SHERRY**—Stop there. That is approximately \$2 billion.

**Mr Boyd**—Yes, my rough maths in my head says that that is approximately \$2 billion.

**Senator SHERRY**—Good. Let us go through from 1996-97 to 2003-04.

**Mr Boyd**—In 1996-97 there was a gain of \$97.7 million. In 1997-98 there was a loss of \$2.2354 billion. In 1998-99 there was a gain of \$635.5 million. In 1999-2000 there was a loss of \$1.0988 billion. In 2000-01 there was a loss of \$2.1278 billion. In 2001-02 there was a gain of \$1.158 billion. In 2002-03 there was a gain of \$1.4584 billion. And in 2003-04 there was a gain of \$157.4 billion.

**Senator SHERRY**—That comes to an approximate net loss of \$2 billion during that period.

**Mr Boyd**—Approximately.

**Senator SHERRY**—So for the period of the Labor government from 1987-88 to 1995-96, there was a gain of \$2 billion and for the period from the election of the Liberal government in 1996-97 to 2003-04 there has been a loss of \$2 billion.

**Mr Boyd**—That is in broad terms for those financial years what it sums to, yes.

**Senator SHERRY**—Thank you.

**Senator CARR**—What other terms would you put it in? They are quite stark, aren't they?

**Mr Boyd**—We did not analyse it in terms of election cycles; we looked at it in terms of financial years.

**Senator SHERRY**—My colleague Senator Conroy made the point that he just wanted to make sure that the updated figures were on the record.

**Senator CARR**—Right. Can I ask the officers about the statements contained in audit report No. 21? In particular, I draw your attention to page 100, which is the Defence portfolio.

**Senator SHERRY**—Defence! Senator Hill is here.

**Senator CARR**—That is why I thought it was only reasonable to raise this matter while Senator Hill was here.

**Senator SHERRY**—Maybe it is going to challenge the muck-up in the tax office with superannuation for incompetence and—

**Senator CARR**—No, I think there is a reasonable claim here for—

**CHAIR**—Okay, Senator Carr, you have the call.



**Senator CARR**—I ask the officers: why are the defence financial statements qualified?

**Mr Goodwin**—I will just go through the basics of what we do in an audit in terms of trying to verify the various balance sheet line items. In the preceding year, we had what we call a scope limitation on a series of financial statements and line items, which in shorthand is an inability to verify a balance for various reasons. In the context of the financial year 2004, what transpired was a series of scope limitations on the following balance sheet line items: general stores inventory, \$2 billion; explosive ordnance inventory, \$845 million; repairable items, which is a component of specialist military equipment, \$2.8 billion; military provisions, which are the entitlements for military personnel, \$1.2 billion; and land and buildings, \$1.4 billion. We are not saying that those items do not exist; we are saying that, due to a series of issues around the internal controls and a series of issues around the operational systems that support the data within the systems of Defence, we, as well as the Department of Defence and the Secretary of the Department of Defence, could not verify those balances.

What transpires from that is whether those scope limitations are pervasive to the financial statements as a whole. The Secretary of the Department of Defence came to the conclusion, in looking at the aggregate of those scope limitations—and, as I say, those scope limitations have a genesis in an internal control environment that requires significant improvement—that he could not conclude that the accounts were true and fair. That gave rise to the Audit Office giving an inability opinion on the Defence financial statements.

**Senator CARR**—Are you saying to me that the secretary of the department could not tell you whether or not the Defence financial statements were true and fair?

**Mr Goodwin**—The Secretary of the Department of Defence in the attestation that he attaches—

**Senator Hill**—You are making this sound as if all this is news.

**Senator CARR**—It is news to me!

**Senator Hill**—Where have you been the last six months?

**Senator CARR**—This is news to me.

**Senator Hill**—You are so busy fighting Conroy you do not even read the newspapers.

**Senator CARR**—I read this report and I am staggered to find that the better part of \$8 billion—

**Senator Hill**—You will not make news out of this; it was last year.

**Senator CARR**—We are not in the business of making news here, are we?

**CHAIR**—That is your best line all day, Kim!

**Senator BRANDIS**—Senator Carr, you are still fighting the Cold War!

**Senator Hill**—At least we now know how you are filling in your time.

**Senator CARR**—That is right: reading your audit reports.

**Senator Hill**—We read about you.

**Senator CARR**—I am staggered.

**Senator Hill**—You and Conroy—biff, biff, biff!

**Senator CARR**—Why are you reading about me? Perhaps you should be paying more attention to your own department's administration, given these reports. That would be very helpful, I would have thought. Is this an unusual circumstance?

**Senator Hill**—Are you new to this field?

**Mr Goodwin**—In recent memory I do not believe the Audit Office has issue an inability opinion on Commonwealth financial accounts. It is a very rare and a very significant event to do so.

**Senator Hill**—The secretary issued it.

**Senator CARR**—The minister might think this is very funny but it is unusual indeed.

**Mr Goodwin**—It is a very rare and significant event.

**Senator CARR**—What is being done about it?

**Mr Goodwin**—Following the conclusion of the accounts with an inability, the Department of Defence has embarked on what I would say is a very extensive program of remediation plans. To date, there are some 15 remediation plans looking to address the various audit qualifications. To put it into context, the issues that gave rise to the audit qualifications are around management oversight and internal controls and therefore should be able to be addressed by remediation plans. They are not technical accounting matters; they are control matters. As I say, the department has a series of remediation plans. At this stage it would be premature to conclude on the status of those remediation plans other than that we are working to audit through that for the 30 June accounts this year.

**Senator CARR**—How long do you think there has been a problem in the Department of Defence in regard to these matters.

**Mr Goodwin**—What I would say is that over a number of years, particularly the last three years, the ANAO has qualified the accounts to varying degrees. The ANAO has issued what we call a closing report, which is a management letter on the internal controls of the department, raising various findings on the matters that gave rise to the qualifications. Those issues have been raised in varying degrees over a number of years. Whether or not management have dealt with those issues in a robust manner, the lack of dealing with those issues probably has some correlation to where we got to last year.

But I would say that there would appear empirically to have been a deterioration around inventory asset management issues in the 2004 financial year as compared to the preceding years. What I mean by that is that when we conducted stocktakes in the 2003 financial year, as an example, we had some scope limitation on the inventory balances, meaning that we could verify some of the balances through a stocktake of quantities but we got some anomalies. In the 2004 year, at any of the stocktake sites that we got to we were not able to get satisfaction that the quantities recorded on inventory and military equipment were accurately recorded. What I am saying is that while there were issues raised in previous years, there appeared to be deterioration in the 2004 financial year.

**Senator CARR**—Are you actually suggesting that the department's efforts have deteriorated, to control the situation?

**Mr Goodwin**—What I am saying is that empirically, when we look at the audit evidence, in 2004 the issues of variance were far worse than they were in preceding years.

**Senator SHERRY**—What sort of military equipment are you talking about here?

**Mr Goodwin**—It covers a broad cross-section.

**Senator SHERRY**—Such as?

**Mr Goodwin**—Such as items that would be used to support military personnel in terms of clothing—

**Senator SHERRY**—Trucks?

**Mr Goodwin**—but it would cover other aspects of military equipment. What I would say, though, is that I think we may have to deal with that in a different forum, given the sensitivity and confidentiality.

**Senator SHERRY**—Okay. Clothing is hardly confidential. That is one issue you have mentioned. What other items?

**Mr Goodwin**—There are other items of military equipment that I am not sure that it would be appropriate to go through and publicly say what they are in this forum. We could probably deal with them in writing.

**Senator SHERRY**—Why not? We are not talking about nuclear weapons here, obviously.

**Mr Goodwin**—We are talking about sensitive and regulated items.

**Senator SHERRY**—What, guns?

**Mr Cochrane**—We need to be careful of two things. What we are saying is that there were definitely exceptions that we found in the stocktake relating to specialised military equipment.

**Senator CARR**—Explosive ordnance?

**Mr Cochrane**—I would not want to set the hares running, if I can say that, because the reality is that what we are saying is that these pieces of equipment could not be found during the stocktake. Whether they are there somewhere or Defence has lost them or misplaced them or sent them off with the unit without accounting for them, we do not know and neither does Defence. But in the areas that we have looked at, the SME, and seen it missing, Defence is looking for some more sensitive items, yes.

**Senator SHERRY**—So there is a possibility that this stuff could have gone somewhere and Defence does not know where it is?

**Mr Cochrane**—They are looking for it.

**Mr Goodwin**—When we do a stocktake we do it with a defence personnel for every one of our stocktakers. If we get a discrepancy, we would agree that discrepancy with the defence personnel and then there would be a fairly extensive process of going through the paperwork and systems to try to identify where that item might be. Where we got to is that we ended up with variances that could not be quantified or qualified in terms of their location. We are not

saying that those items have been stolen or lost; what we are saying is that in doing a stocktake with defence personnel and after an extensive follow-up we were unable to verify their existence.

**Senator SHERRY**—Where they are effectively located?

**Senator Hill**—It is a discrepancy between the paperwork and the physical check.

**Senator CARR**—That's the shoplifters defence, isn't it?

**Senator SHERRY**—But at this point in time the Audit Office does not know whether or not any of these items have been stolen or left the military illegally, does it? You do not know at this point in time.

**Mr Goodwin**—No.

**Senator SHERRY**—You have mentioned clothing. There must be some other items of a non-sensitive character. You can give us items of stock. What about trucks and cars? Are they part of the items that could not be identified—

**Mr Goodwin**—There were trucks that were not able to be identified.

**Senator Hill**—There are over a million inventory items, aren't there?

**Senator SHERRY**—A truck is a pretty major item. Not to know where it is—

**Senator Hill**—That is just being stupid.

**Senator SHERRY**—No, it is not; it is a very serious matter. What about tanks? Were there any missing tanks? I understand there were. It was not just the Audit Office—

**Senator Hill**—Is this just designed to fill in the night with a load of nonsense?

**Senator CARR**—You might think it is nonsense.

**Senator SHERRY**—Missing tanks—

**Senator Hill**—There are no missing tanks.

**Senator SHERRY**—I am asking the officer.

**Senator Hill**—Next thing you will say 'ships' and 'aircraft'.

**Senator SHERRY**—My understanding is that there were tanks that could not be identified as to where they were. Is that correct?

**Mr Cochrane**—There are a couple of issues here. The first issue is that we are saying that, yes, there are missing items of specialised military equipment. We are not saying 'tanks' or identifying any particular pieces of equipment but we are saying collectively because we could not find clothing, trucks, ambulances and SME that we could not actually verify the total balance for the purposes of the accounting records.

**Senator SHERRY**—What is an SME?

**Mr Cochrane**—Specialised military equipment.

**Senator SHERRY**—What is specialised military equipment? Does that include guns and grenades?

**Mr Cochrane**—All those sorts of things, yes.

**Senator SHERRY**—We are not talking about a few million dollars worth here; we are talking about billions of dollars worth, aren't we?

**Senator CARR**—That is right, explosive ordnance.

**Senator Hill**—No, that is—

**Mr Cochrane**—We are saying that collectively we had things missing during the stocktake that prevented us from forming the view that the stocktaking system itself was reliable enough for us to form an opinion for the purposes of the financial statements.

**Senator Hill**—It does not mean that there is a billion dollars worth of items missing. It is a risk assessment.

**Senator SHERRY**—The Department of Defence did not know that it had billions of dollars—

**Senator Hill**—You do a physical check against the records, and if there is a discrepancy you then do an assessment of what the risk is. If it is over a certain threshold, the auditors will not give you a tick.

**Senator SHERRY**—Can you guarantee to this committee that none of these items have been stolen and have left the military—that the Department of Defence could not identify where they were? Can you guarantee that?

**Senator Hill**—No. There are occasions when items get stolen. That is true. If there are ever any weapons stolen, of course, that is immediately referred to civilian police.

**Senator SHERRY**—Has there been any reference in recent times?

**Senator Hill**—Of weapons being stolen?

**Senator SHERRY**—In the last three years—any reference—

**Senator Hill**—There have been questions on notice and questions answered. Occasionally it happens. Bear in mind that the ADF has a large quantity of weapons of many varieties.

**Senator SHERRY**—I understand that, but—

**Senator Hill**—Occasionally something is stolen. If it is stolen, it is immediately reported and investigated not only by military police but also by civilian police. There is a very firm rule in relation to that.

**Senator SHERRY**—Of course, but it is particularly difficult if the Department of Defence does not know where there are billions of dollars worth of items located—trucks, ambulances, grenades, guns.

**Senator Hill**—It does know. It means that—

**Senator SHERRY**—How would it know something had been stolen if it did not know where they are?

**Senator Hill**—Of course they know where their trucks are. Of course, they know where their tanks are. It means that there is basically a discrepancy between the paperwork and the physical check. The criticism is basically that the paperwork is not kept well enough.

**Senator SHERRY**—Therefore how would you know if something has not been stolen? If the paperwork does not—

**Senator Hill**—That tells you that you have an audit problem. But it is a separate issue to determine whether something is stolen.

**Senator SHERRY**—Yes. We know we have an audit problem.

**Senator Hill**—Defence has a responsibility—

**Senator SHERRY**—Can you guarantee to this committee—

**Senator Hill**—not only to the auditor—

**Senator SHERRY**—that some of the billions of dollars of items—

**Senator Hill**—but to the public to ensure—

**Senator SHERRY**—Can you let me finish my question.

**Senator Hill**—that weapons are properly protected.

**Senator SHERRY**—Let me finish my question: can you guarantee to this committee that, of the items—the tanks, ambulances, grenades and guns—none have been stolen?

**Senator Hill**—I can promise you no tank has been stolen.

**Senator SHERRY**—I did not ask about just tanks. I asked about ambulances, trucks—

**Senator Hill**—We do not have enough to have them stolen, for starters.

**Senator SHERRY**—All the items. Guarantee it.

**Senator Hill**—We have only a handful.

**Senator SHERRY**—Ambulances, trucks, guns, grenades.

**Senator Hill**—I cannot—

**Senator SHERRY**—Can you guarantee to this committee that they have not been stolen?

**Senator Hill**—I cannot guarantee that small items do not get stolen. As I said, there are over a million different line items. Goodness only knows how many items themselves there are. Nobody would know—tens of millions of items.

**Senator SHERRY**—No-one knows what the Army has got.

**Senator Hill**—In over 20 different warehouses.

**Senator SHERRY**—Okay, 20 warehouses.

**Senator Hill**—It is very difficult, and I think even the auditors will acknowledge that, with the specialised military equipment that is travelling across the world, coming back for repair and changing its structure, it is not an easy task to maintain an audit trail. The Auditor has said to Defence that they have not done that well enough. That is what Defence is seeking to remediate.

**Senator SHERRY**—For three years—and it got worse. It did not get better over the three years; it got worse.

**Senator Hill**—The audit showed a worse picture. I am not sure whether it got worse or whether the audit got better—in other words, whether a more intensive—

**Senator SHERRY**—What, they found out more?

**Senator Hill**—Yes, I suspect.

**Senator SHERRY**—They dug deeper—

**Senator Hill**—If the auditor disagrees—let me ask. Do you disagree with that? Why do you say it got worse?

**Mr Goodwin**—I am just basing it on the empirical evidence of the stocktake results.

**Senator Hill**—But it was a more thorough stocktake, wasn't it?

**Mr Goodwin**—It was a more extensive stocktake regarding the controls of the system, but the stocktakes in the previous year were statistically valid stocktakes.

**Senator Hill**—Anyway—

**Senator SHERRY**—Surely you do not need to ask questions of ANAO, which criticised your own oversight.

**Senator Hill**—I have not heard the ANAO say—

**Senator CARR**—It is unusual, but it is obviously enlightening for him.

**Senator Hill**—This whole evening is unusual. I have not heard the ANAO say it actually got worse in 2004. It was a worse outcome from an audit point of view.

**Senator SHERRY**—What have you been doing for the last three years? Have you been reading these reports?

**Senator Hill**—Trying to fix the problem. I read the reports.

**Senator SHERRY**—It has been getting worse, not better.

**Senator Hill**—I read the reports.

**Senator CARR**—Can I ask you this. On page 116, there is a summary of the findings of the Department of Defence financial statement categorisations—table A and table B. Can you update these tables? I see that they seem to end at December 2004.

**Mr Goodwin**—Yes.

**Senator CARR**—Are you able to advise me, for instance, how many category A findings are outstanding with Defence?

**Mr Goodwin**—In terms of the report, our final closing report that was issued in regard to the audit of 2004, the final position of category A findings was 27 and for category B it was 48.

**Senator CARR**—It has actually gone up, hasn't it?

**Mr Goodwin**—Yes.

**Senator CARR**—Explain that to me.

**Mr Goodwin**—The findings reported here are the interim findings. From an interim process, you are effectively looking at the IT environment. As we progressed through the year to the end-of-year audit, we were doing the stocktake activities. A lot of the movement between the 14 and the 27 relates to inventory and asset management practices that were identified from stocktake activity, which is conducted in the June period, which was after these results are tabled.

**Senator CARR**—What is your evaluation of the Department of Defence's progress in rectifying these outstanding findings?

**Mr Goodwin**—What I would say is that the Department of Defence has effectively gone about it from the right direction in terms of now identifying significant remediation plans and aligning those remediation plans to the causes. I know that the Secretary to the Department of Defence, whenever I articulated the remediation plans, has sought to group our findings in terms of our category A and category B findings and marry those to the remediation plans. But the remediation plans have a life that goes beyond 30 June this year. In terms of the progress, I think it is early days. It is an evolutionary or iterative process. Originally 12 plans were identified, but, as Defence management have further worked through this and further looked at our findings, they have certainly identified other remediation plans that they are now articulating.

**Senator CARR**—I understand that you have recently given testimony to the JCPAA. Is that the case?

**Mr Goodwin**—Yes.

**Senator CARR**—Is it also the case that you advised that committee that the defence department had asked you to comment upon a long service leave report on their record systems?

**Mr Goodwin**—The defence department, as part of the remediation activities, are doing several things. One is looking to address the underlying process of control aspects that gave rise to the audit qualification. Another is doing an audit using their internal auditors to look at the long service leave balances. The other is to try and use a different statistical sampling methodology to define in dollar terms the extent of the problem with annual leave balances and the like. We have worked fairly closely with Defence internal audit on the long service leave, and we are working with the personnel executive on the sampling activity that they are looking at to try to put a dollarised figure on the extent of error within the systems.

**Senator CARR**—Have you been able to establish what that figure is?

**Mr Goodwin**—No. That process is still very much in the early days.

**Senator CARR**—Are there any employees who might reasonably feel a little uncertain as to their leave entitlements, given the poor record-keeping that appears to have been uncovered?

**Mr Goodwin**—I think that might be a question for Defence personnel. All I would say is that when Defence did a quality assurance review a couple of years ago they identified that they were not able to substantiate balances through a lack of documentation. In instances



where documentation did exist, there were errors in what was being recorded on the internal systems.

**Senator CARR**—So people do not really know what their leave entitlement is.

**Senator Hill**—People do know what their leave entitlement is.

**Senator CARR**—I am wondering how you get to the point where you cannot get a balance on it.

**Senator Hill**—That is the problem.

**Senator CARR**—Is it at aggregate level or at the individual level?

**Senator Hill**—This is an accounting issue. People would know what their leave was.

**Senator CARR**—Thank you, Minister. Is that the case, Mr Goodwin?

**Mr Goodwin**—A number of system type issues were identified within the Defence personnel system, called PMKeyS, that gave rise to not being able to necessarily rely on the controls in that system to give an accurate reflection of the liability. As a result, from an audit perspective you would look to use alternative procedures, which are called substantive procedures, to verify those balances—that is, going back to the source documentation. When Defence embarked on an internal review and the ANAO reviewed that, two issues were identified. I am simplifying it. Documentation was not available to support balances as being accurately put into the system, and if documentation did exist there were instances where you were able to verify that there was an error in the system.

**Senator CARR**—Mr Goodwin, what I am going to, though, is that in terms of leave entitlements it comes down to the individual. How does the failure to provide a balance on the overall liability for the department relate to any individual? Are you able to ascertain that the records that provide the base data are accurate when it comes to individuals' entitlements?

**Mr Goodwin**—The testing you would do would be at an individual level, but we are doing it to verify the balance at an aggregate level.

**Senator CARR**—Can you verify the individual level entitlements?

**Mr Goodwin**—No. We have had difficulty in verifying the individual entitlements.

**Senator CARR**—That is why I asked the question.

**Mr Goodwin**—That is why we had what we call a scope limitation.

**Senator CARR**—Would it be reasonable for an individual—

**Senator Hill**—From the paperwork. But if you are talking about an individual—

**Senator CARR**—How else do you keep records?

**Senator Hill**—That is worked out with the individual. They are not asking the individual.

**Senator CARR**—Is that at the individual record level?

**Mr Goodwin**—We are testing at the individual record level what is recorded in the system vis-a-vis what paperwork exists.

**Senator CARR**—That is all right, but if you are an employee of the defence department and you make a claim on the department for leave entitlement, how can you verify that claim? Mr Goodwin, could you at this time, given the audit you have undertaken, assure the committee that individuals could verify the records about their own leave entitlements?

**Mr Goodwin**—I would say that there is significant uncertainty, based on the audit that we have performed, particularly around annual leave and other entitlements for military personnel, that we could verify these balances.

**Senator CARR**—If for instance the department said that you had 25 days leave but, as a soldier or as a public servant working for Defence, you thought you had 45 days entitlement, how would that claim be reconciled?

**Mr Goodwin**—Theoretically that claim would be reconciled by going back to the source documentation.

**Senator CARR**—Can you do that?

**Mr Goodwin**—No. When we have tried to do that from an audit perspective we have had difficulties in getting the source documentation.

**Senator CARR**—You can understand why I might be a little concerned, on behalf of people who are seeking to claim legitimately earned leave, that the department does not have accurate records.

**Senator Hill**—That has not been an issue.

**Senator CARR**—Is that the case or not?

**Senator Hill**—It is an auditing issue; it is not an issue of people not getting their leave.

**Mr Goodwin**—From an audit perspective we were not able to verify a large sample of the leave balances, due to, firstly, system issues. That gave rise to moving to a substantive audit, which then tried to trace the information back to the source documentation.

**Mr Cochrane**—On a more likely/less likely basis, I would say that the more likely danger is that Defence would pay out too much in leave entitlement rather than less leave entitlement.

**Senator Hill**—That is more likely.

**Senator MURRAY**—Why do you say that?

**Mr Cochrane**—Because we would have some doubt as to whether all the leave applications, where leave has actually been taken, have been fully processed into the system.

**Senator MURRAY**—Not because they would give the benefit of the doubt?

**Mr Cochrane**—Exactly.

**Senator Hill**—They would give the benefit of the doubt.

**Senator MURRAY**—That is what I mean. I assumed, Mr Cochrane, you meant because they would give the benefit of the doubt where there was doubt, but your answer seemed to imply—

**Mr Cochrane**—Where there was doubt, they would be taken up. But, from an audit perspective, if there were an employee claiming leave and getting leave and that employee

was not entitled to it because they had already taken the leave then it is less likely that they are going to be honest about it and say ‘I’m not going to have that seven days off; I’ve already had it.’

**Senator MURRAY**—If such a thing was incapable of being sorted, which it might—for example, if the source documentation simply does not exist—are you able to draw a line and from that time on the system works effectively because you have introduced new systems?

**Mr Cochrane**—I think it is a significant issue that we have to face up to. There are various areas of defence records where the only practical way forward is to draw a line somewhere and say, ‘Yes, we’re starting from a clean slate,’ and that is a particularly difficult issue, given the size and complexity of Defence, but one which I am sure we will have to face very soon.

**Senator MURRAY**—When would it be possible to start that drawing of the line—the clean slate—so that somebody who comes into the armed forces for the first time is on a record system whereby it would be guaranteed? Is it the case that somebody who joins up now will not face the problems that somebody who has been a member, say, for seven years will face because of your audits and Defence’s reaction to it? Is the system now clean for a person joining up?

**Mr Goodwin**—The question you have asked is two-fold. In terms of drawing a line what you are seeking to do is re-baseline the data, so you get an agreement with defence personnel as to what the liability is.

**Senator MURRAY**—From an auditing perspective?

**Mr Cochrane**—As to what the liability is, and that becomes a liability, if you agree it.

**Senator MURRAY**—That is for existing personnel?

**Mr Goodwin**—That is right. The only time to do that is once you have satisfaction from a management perspective that the underlying processes and controls within the defence personnel systems are robust. In the prior year audit there were various issues around the system and the processing of leave requests and the accruing of leave entitlements. So, until you can fix those underlying problems, you could create an evergreen problem for new personnel and existing personnel.

**Senator MURRAY**—When do you think new people joining will be able to be assured that the record system is such that this problem will not arise for them?

**Mr Goodwin**—The way I would answer that question is to recognise that a remediation plan exists in Defence to remediate those underlying problems, but as to when it will be robust I think that is probably a question for defence management.

**Senator Hill**—Leave arrangements are not straightforward, because they vary enormously depending on lengths of deployments and other ways in which individuals earn particular leave benefits.

**Senator MURRAY**—You are talking to somebody who has spent nine years in the armed forces, so I know.

**Senator Hill**—Then you would know them better than I do. Of course, the personnel are not only spread across Australia but also around the world, and no matter how good your

system is, it is only going to turn out the right results if the right information is being put in consistently for all the source areas in which it is supposed to be inputted. Getting people who believe that they are very busy doing more important things out in the field to complete the paperwork on a regular basis is a very difficult thing.

**Senator MURRAY**—But not even the ones out in the field. My point is that a problem has been identified, Defence have accepted that it is a problem and are trying to remediate it. I want to know by when the new, better system will be in operation. That was my question.

**Senator Hill**—I would have thought that the better systems would have been in operation some years ago. But, traditionally, the records were not kept electronically, so it was really a question of where the paperwork was. It was run by the different services, it was administered in different ways. Do the services have electronic systems up for leave now for certain services?

**Mr Goodwin**—Yes.

**Senator Hill**—So it should be easier to ensure that the data is properly managed. So contemporary outcomes should be better outcomes, but they are still only as good as the information that is put in.

**Senator CARR**—Can I ask then about the property valuations? I understand that there was a proposal to have those valuations completed by 30 June 2005. Are you aware of what progress has been made to meet that deadline?

**Mr Goodwin**—Yes. The defence management, through the corporate services group, have engaged the Australian Valuation Office to do effectively a 100 per cent revaluation of the defence estate portfolio, which is a significant undertaking. Where it is at is that Defence has certainly articulated a plan in agreement with the AVO as to the timing of those valuations. Those valuations actually are happening in the field right now. It is an ongoing operational logistical management issue for Defence to make sure that it is completed.

**Senator CARR**—Is that supposed to be done every year from now on?

**Mr Goodwin**—No. Previously you would be able to do it on a three-year rolling basis. However, the findings in the audit last year were that there was a series of assets that were not revalued due to the application of thresholds. That effectively meant there was a large number of assets in the hundreds of millions of dollars that escaped, certain finance list assets that had not been considered, and issues around the management oversight of revaluations where they did occur, whereby either the data was inputted incorrectly or the revaluation was performed but the data was not actually inputted into the system. The combination of all those factors has meant that defence management have taken the decision to do a 100 per cent revaluation, which is effectively to re-baseline their records going forward.

**Senator CARR**—Has that been an expensive exercise for the defence department?

**Mr Goodwin**—I would imagine an undertaking of that size would be, but I think in terms of dollars that is probably a question for defence management.

**Senator CARR**—Yes. We cannot blame soldiers for this, can we, Senator Hill? Basic data inputs—

**Senator Hill**—The principle issue, as I understand it, was an understanding that assets of a value under \$100,000, from memory, did not have to be revalued. That was how Defence had interpreted the advice it had received and then basically the Auditor said, ‘No, that is wrong.’ So now we are doing what we have been told to do.

**Mr Goodwin**—In this case it was a combination—the minister is right—of \$100,000 for certain assets and \$250,000 for other assets. The application of thresholds effectively is an efficiency issue. But whenever you apply thresholds you always then need to do the management analysis to make sure that you do not end up with a material number of items that do not get considered. In terms of the application of thresholds, our own calculations were that approximately \$600 million of assets were not considered as part of the revaluation process. All that says is that maybe the thresholds were set too high without supporting management analysis.

**Senator Hill**—So it is an auditing issue.

**Senator CARR**—There are quite a few of those!

**Senator Hill**—The property is there.

**Senator CARR**—No-one is accusing you of stealing any property.

**Senator Hill**—There are quite a few of those auditing issues.

**Senator CARR**—Yes, quite a few.

**Senator Hill**—A few that you have not come to yet.

**Senator CARR**—There is a limit to what I can do in an evening.

**Senator Hill**—I can give you a hand, if you like.

**Senator CARR**—Would you like to enlarge, Minister? I am only too happy to accept your advice. Perhaps you could ask the officers some more questions about how they feel about matters and you might get more accurate information. What is your future auditing plan for the defence department?

**Mr Goodwin**—The audit is actually in progress as we speak. We are paying particular attention to the defence remediation plans and how they correlate to the qualifications. We are having a fair amount of dialogue with defence management on the continual need to prioritise their efforts vis-a-vis 30 June this year, recognising that the DMO will become a prescribed agency on 1 July and that that in its own right is a significant management task, and we are about to embark towards the end of the year on a very significant stock take activity.

**Senator CARR**—I have a number of other questions which I will put on notice, because we have another agency to deal with. I thank you very much for your frank advice. I thank the other officers. I have completed my questions for this agency.

**CHAIR**—There being no other questions for the Audit Office, I thank Mr McPhee and the other officers for their assistance. I call the Australian Public Service Commission.

[9.16 pm]

### **Australian Public Service Commission**

**CHAIR**—Ms Briggs and officers, welcome. Ms Briggs, do you have a statement to make of any sort?

**Ms Briggs**—No.

**CHAIR**—We will kick off with questions, then.

**Senator CARR**—I might begin with the question regarding the Australian and New Zealand School of Government. A special appropriation of \$10 million was put through from last year's budget processes—not this year's—by way of an unusual set of circumstances. I understand that a letter was written from the commission to the Prime Minister's department. Is that the case?

**Ms Briggs**—No. I have not written a letter to the Prime Minister's department.

**Senator CARR**—Did anyone in your commission write a letter?

**Ms Briggs**—We have exchanged material with the Department of the Prime Minister and Cabinet and certainly the minister assisting the Prime Minister has exchanged some correspondence on the issue of the capital grant.

**Senator CARR**—Why was it necessary for the grant to be paid this financial year?

**Ms Briggs**—That is not a matter that I have had any involvement with. However, I can give you an indication that Professor Fels was quite interested to see the grant paid as soon as possible because he was quite keen, firstly, to shore up the resources of the organisation. He also saw that as an important stepping stone to approach the other jurisdictions which are part of the five governments associated with ANZSOG for similar capital grants.

**Senator CARR**—So the proposal was initiated by Professor Fels? Is that the case?

**Ms Briggs**—Yes, following discussions within the ANZSOG board.

**Senator CARR**—Were there discussions with the member governments?

**Ms Briggs**—I would like to make a statement of preface, if you like. I am a member of the board and so I wear two hats. But I recognise I am under parliamentary privilege and some of my knowledge of this matter predates my moving into this position, and indeed my being on the board. I have been on the board since November last year, when I moved into the job. Could you repeat the question? I will try to answer it for you.

**Senator CARR**—I want to know what the consultation was. The school of government is effectively a joint venture with a number of state governments and the New Zealand government. What were the consultations with the partner governments before the application for the \$10 million was made?

**Ms Briggs**—There have been discussions about the capital base for the organisation dating back to its establishment. Originally, there was some interest in establishing an endowment fund for the organisation but the participating governments were reluctant to go in that direction until they were confident that the school would be successful in achieving its goals. It moved on and instead, at the first stage, jurisdictions like the Commonwealth contributed

numbers of places and also some particular funding for research. The first real attempt within the board to actually outline a capital proposal came early last year, as I understand it, and there were conversations in the board around capital contributions from governments with a particular interest in a contribution that the Commonwealth might make.

**Senator CARR**—That is fine, but were commitments given by the state governments that they would be putting money into the pot?

**Ms Briggs**—No, nor by the Commonwealth government.

**Senator CARR**—The \$10 million has been provided by the Commonwealth. What is the contribution from the states?

**Ms Briggs**—At this stage there is no matching contribution from the states that has been specified by the Commonwealth. However, the dean, Professor Fels, is actively pursuing capital contributions from other jurisdictions. There has been no secret about that in board conversations that I have been involved with which pre-date the decision to give the Commonwealth funding.

**Senator CARR**—Has New Zealand committed to any capital contribution?

**Ms Briggs**—Not at this stage, but they have certainly been considering the matter at officials level for at least the six-month period that I have been on the board.

**Senator CARR**—What contribution are the 10 universities associated with the school making?

**Ms Briggs**—I do not have that information, but I can say that, when the Commonwealth contributed \$200,000 a year for three years for research for the John Bunting chair at the ANU, the ANU matched that contribution.

**Senator CARR**—I understand the \$10 million is being used for two chairs.

**Ms Briggs**—That was part of Professor Fels's proposal, yes, but in our response as to how the funds would be used the Commonwealth indicated six areas of activity that it wanted to see funded as part of these arrangements and did not specify in particular that it would pay for one chair or another.

**Senator CARR**—What are the six?

**Ms Briggs**—The funding is to be provided to: attract and retain world-class teachers; increase the scope and effectiveness of teachers; strengthen ANZSOG's capacity to undertake new initiatives and make a wider contribution to the improvement and innovation of government administration; develop leadership capability amongst senior executives; contribute to improved governance in the region; and improve the relationship between public service leaders across jurisdictions, building a whole-of-government culture et cetera.

**Senator CARR**—Is there an issue of tenure—attracting people on tenure?

**Ms Briggs**—Within the board—and again recognising the challenges I face around board discussions—consistent with other academic boards that I have been a member of, there is generally a question of an ability to attract academics in the event that you cannot offer them employment longer than on a year-on-year funding basis. The board has been concerned to see that it could offer contracts of three or five years, for example.

**Senator CARR**—What consultations were there with the education department about this program?

**Ms Briggs**—The education department, like many other federal agencies, is actually engaged in contributing people to both the fellows program and the masters program. When I recently discussed with portfolio secretaries an ongoing commitment in that regard, the education department indicated to me that they have been very impressed with the quality of the programs at the school and so on. I think they are very supportive of this approach, but I have not consulted them formally in terms of a formal position.

**Senator CARR**—So we had no consultation with the states, no consultation with the universities and no consultation with the education department. I have raised these issues with PM&C. There appears to be a new policy, which I have no problem with, as to the question of tenure. However, it would be inconsistent with the approach taken with the education department and universities at large.

**Ms Briggs**—If I could clarify what you are saying, I do not believe that there has not been discussion with the states and New Zealand. That certainly occurred through the board. The government has not personally advanced those discussions at ministerial level, but that is not to say that Professor Fels has not engaged actively with the board on these issues.

**Senator CARR**—When does the deed get signed for the \$10 million grant?

**Ms Briggs**—That is really a matter for the Prime Minister's department. As part of—

**Senator CARR**—They asked me to talk to you about it.

**Ms Briggs**—Okay. Let me give you the perspective on this.

**Senator Hill**—Did they?

**Senator CARR**—I will ask my colleagues here if that was not the case.

**Senator Hill**—I do not recall it.

**Senator BRANDIS**—They answered the question in a particular way.

**Senator CARR**—My colleagues, I think, would suggest that that is correct.

**CHAIR**—Let us just ask the question, Senator Carr.

**Ms Briggs**—If I can help you, Senator Carr, you will note that in the portfolio budget statements this funding is under the Department of the Prime Minister and Cabinet. In discussions that we had at the time, we felt that it might compromise my position if the funding were paid through the commission. So the Department of the Prime Minister and Cabinet is providing the fund and negotiating the deed of agreement associated with that. I have not seen that, and that is reflective of my position on the board—that it might compromise my position if I were to see it.

**Senator CARR**—So you can assure the committee that this was not paid as a bail-out for the school because it was in financial trouble?

**Ms Briggs**—I can absolutely assure the committee of that. At each board meeting I have attended, we have gone through the books of the school, and the books are in good shape.



**Senator CARR**—Who is the second chair for? There is one Sir John Bunting chair at the ANU. What is the second chair for?

**Ms Briggs**—As I said, in our response as to where we would wish to see the funding provided, we have specified six areas. We have not gone to that level of detail. Professor Fels, in his original proposal, was interested in seeing a deputy dean position created. I have no doubt that we will have discussions around the six areas of activity and where he would like to use the funds. Indeed, we have already agreed we will do that as early as this Friday.

**Senator CARR**—So we are looking at a deputy dean at the ANU?

**Ms Briggs**—No, I do not believe that is his proposal.

**Senator CARR**—Why not?

**Ms Briggs**—I have not heard him indicate that that would be his proposal. To my knowledge, he has not suggested a particular location for such a position. As I said, we have not discussed it at that level. Instead, the Commonwealth has said that it will allocate funds across the six areas as agreed.

**Senator CARR**—So you do not know where the second chair is being located.

**Ms Briggs**—He has not proposed a location for that at this stage, to my knowledge.

**Senator CARR**—I am surprised that a \$10 million grant could be paid with so little detail.

**Ms Briggs**—I think the confusion here is in terms of the grant and what it is actually being used for. The intention is to provide the grant into a foundation. It would be the interest or the earnings on that \$10 million that would make the contribution. If you were to have, say, a six per cent annual rate of return, it would be \$600,000 that would be available for distribution each year.

**Senator CARR**—Was the Commonwealth involved in the establishment of the endowment fund itself or was it all done through the school?

**Ms Briggs**—The school has established that fund.

**Senator CARR**—What consultation was there with the Department of the Prime Minister and Cabinet before the fund was established?

**Ms Briggs**—I am not sure what consultation there may have been, but certainly within the context of the board there were discussions about establishing such a foundation because that could then facilitate the receipt of capital contributions that might be made by any government.

**Senator CARR**—Ms Belcher drew our attention to the fact that the department had no dealings—no direct involvement—with the establishment and that we should refer these questions to the Public Service Commission. That can be found on the *Hansard* record, for those that are having trouble.

**Ms Briggs**—As I said, that was a matter for discussion within the board.

**Senator CARR**—Perhaps we will come back to that in the next round, because I am obviously interested in how that money is to be spent. Can you please explain to me why it is that the money had to be paid this year? If the department had nothing to do with it and it was

your initiative, why did the money have to be paid this financial year and not go through the normal budget processes and therefore be part of the current budget?

**Ms Briggs**—I do not have an answer for that. In my approaches I have not specified when I would like to see the money paid. All I have done is emphasise the importance of seeing a contribution made by the Commonwealth because of the very good work that the school is doing in terms of the education and training of Australian public servants.

**Senator CARR**—I bet you a lot of other universities would be keen to see how you can pull this sort of money together in these circumstances. There is obviously a model for innovation in public funding there somewhere. I am sure there would be a serious research project undertaken on that. In terms of your own staffing arrangements, Budget Paper No.1 indicates that you are losing eight staff. What impact will that have on the work of the commission?

**Ms Briggs**—I should probably give you a little bit of background to that firstly, so you have got a feel for it. You will be aware that the commission had had some concerns about the management of its budget. I have been looking at that since I joined the commission as we went forward, and what we discovered was that our staffing numbers had been tracking higher than their historical level. We also reviewed some forward pressures that were influencing or were expected to influence us in future years. At the same time as that, we had received some funding for a couple of initiatives associated with Indigenous employment in the Australian Public Service and leadership development programs as well. That funding is now starting to be taken away. There is a combination of factors working here, primarily associated with the reduction in staffing of about three people associated with the waning of those new policy proposals but also associated with some decisions that I have taken as the commissioner to move to a lower overall level of staffing because that is what we can afford within the budget that we have.

**Senator CARR**—With the efficiency dividend will there be further reductions in staff?

**Ms Briggs**—No. As part of my plans I have factored in that increase in the efficiency dividend.

**Senator CARR**—I would like to ask you about the enterprise agreement that is currently under discussion. It has been put to me that the commission currently operates on a non-union LK agreement. That is correct, isn't it?

**Ms Briggs**—It is an LK agreement negotiated with staff, but the unions have—

**Mr Jones**—It has included close consultation with the CPSU, the Community and Public Sector Union. The approach we have had to starting our work on the future agreement, the two previous agreements and the current agreement is that we make the agreement directly with staff but we work closely with staff and the CPSU. We do this work through a tripartite workplace relations committee, where the three parties are represented, including the union.

**Senator CARR**—Does the CPSU request a ballot on the type of agreement?

**Mr Jones**—They have raised with us whether we would be interested in a ballot. We have said that that is not our preference. At the moment, they are conducting a petition of staff to see if there is support for a ballot.

**Senator CARR**—If you say it is not your preference, you have effectively said no to it, haven't you?

**Mr Jones**—We said our preference is to deal directly with staff, as we have done for the last three agreements. We have found that to be a highly successful approach to agreement making—

**Senator CARR**—It may well be.

**Mr Jones**—In our organisation, CPSU representation is fairly low. It is in the order of 30 per cent or 35 per cent. It is difficult to see how we can get full interaction and representation.

**Senator CARR**—But surely a ballot on the type of agreement is an effective form of consultation. We are about to see laws being brought into this country to force secret ballots on industrial action; you are saying no to a ballot on the type of agreement. How does that fit with the values the commission espouses on consultation and cooperation?

**Mr Jones**—In the Workplace Relations Act, the phrasing about LK or LJ agreements is 'the employer may offer'—and I think that implies that the employer has some choice and should not necessarily hand that choice over to a ballot of employees.

**Senator CARR**—It seems to me that that is a little inconsistent with the stated values that you express.

**Mr Jones**—No, I do not think it is; I think it is completely consistent with the approach we have in this organisation of trying to build strong collaboration and cooperation and deal directly with staff to try and deal with their issues in developing agreements—and not necessarily be captured by service-wide or industry-wide agendas.

**Senator CARR**—So a ballot that says we can have either an LK agreement or another type of agreement would be, what, undemocratic?

**Mr Jones**—I did not say it would be undemocratic at all.

**Senator CARR**—Then why would that not advance the level of cooperation? How could rejection of that proposition possibly be justified?

**Mr Jones**—I am saying that you get a fuller degree of cooperation and collaboration through an LK agreement, where you deal directly with the staff and you also deal with the CPSU as the representative of about 30 per cent of the staff. That encompasses union input and direct employee reps. We have, on our workplace relations committee, elected employee representatives. They are not just people who put their hands up in the workplace. They win those positions through an election and they represent staff as well as the union representing staff. I would argue that is a fuller democratic process than simply dealing with a union.

**Senator CARR**—How long has the petition been circulating?

**Mr Jones**—About three or four weeks. I think it closes at the end of this week.

**Senator CARR**—We will come back to you on that.

**Mr Jones**—Certainly.

**CHAIR**—I have a couple of questions for Ms Briggs. I have been reading a report produced in mid-2003 by the Audit Office, entitled Audit report No. 52 2002-03: *Performance*

*Audit: Absence management in the Australian Public Service.* Paragraph 58 on page 21 of the report reads:

The Commission advised that it notes the work already undertaken by the ANAO in identifying better practice approaches to absence management in the APS and proposes to use this work as a basis for developing guidelines.

How are you going with developing guidelines for absence management?

**Ms Tacy**—We have, to date, taken the approach of working through our networks of HR practitioners and so on, using the ANAO's report to talk through better practice around absence management. We have taken that approach so far, rather than producing written guidelines. That is still on our list of projects that, subject to resources and other pressures, we would do in the future.

**CHAIR**—Do you keep a brief on what unscheduled absences cost the Public Service, and the flow-on costs?

**Ms Tacy**—We do not monitor absenteeism across the service. We did, following up on the ANAO report, ask some questions around the issue in our *State of the service report*. We dealt with that as a particular issue of better practice issues in absenteeism management, but we do not monitor levels of absence or their costs across the service. That is an agency responsibility.

**CHAIR**—You do not keep a brief on that so that you can better undertake this process?

**Ms Tacy**—No, we do not.

**CHAIR**—The report goes on to say:

Timing for development of the new guidelines for agencies will be considered as part of the Commission's business planning process. As priorities for attention in 2003–04 have already been identified, the issue of guidelines for dealing with unscheduled absences will be considered for inclusion in the 2004–05 business planning process.

**Ms Tacy**—We certainly did consider it—and, as I said, we have—

**CHAIR**—You did consider it?

**Ms Tacy**—We took the decision to primarily address the issue through the networks that I mentioned: seminars, workshops and so on.

**CHAIR**—What have you done in terms of that?

**Ms Tacy**—Linked to our issues around work force planning and people management, we would deal with issues around absence management, leave management and, more generally, work and family issues and so on. But we have not, given other priorities, been able to address the issue of producing guidelines.

**CHAIR**—Ms Tacy, over the next few days at estimates I am going to be asking several departments and agencies about their practices in this context. Can I be confident that they are going to say that the commission has been helpful in this context?

**Ms Tacy**—The commissioner actually wrote to agency heads.

**Ms Briggs**—My predecessor wrote to agency heads on this matter in 2003 to encourage and indeed promote certain actions by agencies to deal with unacceptable levels of unscheduled absences. He drew the attention of agency heads to the main conclusions and implications for their agency from the ANAO work to encourage them to take some measures and strategies in association with this.

**CHAIR**—Ms Briggs, the Audit Office report talks about the commission taking the next step, for instance, in developing guidelines, taking a holistic approach and perhaps orchestrating the collection of uniform data across the Public Service—for example, days of the week people are sick, the reason that they are absent, the dates of absence, the age and gender of employees, the length of service and the particular unit that they working in. Has any of that been done?

**Ms Briggs**—As Ms Tacy said, it was decided that, due to our other workloads and the demands on our time, we were not going to progress with those guidelines.

**CHAIR**—Do you know how much absence management in the Australian Public Service costs the community?

**Ms Briggs**—I think Ms Tacy said that we did not have a figure on that.

**CHAIR**—It is hundreds and hundreds of millions of dollars a year. I would hate to think what is more important than that. So that is not one of your top priorities?

**Ms Briggs**—It is not one of my top priorities for the next 12 months. My top priorities for the next 12 months are around Indigenous employment in the Australian Public Service, reviewing the provisions of the Public Service Act and—

**CHAIR**—Ms Briggs, let me read from the ANAO report. Paragraph 52 says:

The ANAO calculated the 2001–02 median and mean unscheduled absence rates in the APS at 8.9 and 11.9 days per employee respectively, with an estimated direct salary cost of \$295 million, or about three per cent of aggregate APS salaries and wages.

So it costs about \$300 million. The ANAO go on in the report to say that that is only part of the cost because there is also the inconvenience and the disruption of administration. So trying to cut back costs of \$300 million has not been one of your top priorities?

**Ms Briggs**—I hear what you are saying but, within our limited resources, there are certain things that we can deal with and certain things that we cannot deal with.

**CHAIR**—That is a huge cost—\$300 million!

**Ms Briggs**—Mr Podger has taken decisions, like I have, to invest our resources in other places, I am afraid.

**Senator MURRAY**—I would just add to the discourse, because you are bound to think about these issues and I presume in your next year's work program it would be an issue about which you would decide whether to pursue. A few years back, I was looking at the balance sheets and I established that there was a trend across the Commonwealth of increasing employee entitlement liabilities. I raised this issue with a number of key agencies, including the Auditor-General. This increase was due to departments allowing people or asking people not to take leave because they were short-staffed or had workloads or whatever. Ultimately

that leads to unproductive outcomes, because you get an increasing level of stress and so on. The Audit Office and other agencies have attended to this and have kept an eye on it and it has been reducing.

The point I want to bring to your attention, and I ask that you take it into account, is that there is a link between the non-taking and accumulation of leave entitlements and absenteeism. People get stressed and need a break and they find other means to take it. I would request, in your consideration of this matter for future reporting, that you examine the linkages and causative factors, of which there are some indicators, as well as just the incidents.

**Ms Briggs**—I have heard that. I have also heard the view of the chair.

**CHAIR**—We will be following up this matter. Thank you.

[9.46 pm]

### **National Water Commission**

**CHAIR**—I welcome officers from the National Water Commission. It is good to have you here. Do you have an opening statement?

**Mr Matthews**—No.

**Senator STEPHENS**—Thank you for your attendance this evening, Mr Matthews. It was a bit of a trick last time—we missed you because we thought you were coming to the other committee's hearings. But, anyway, we have found you now. I would really like to get my head around how the National Water Commission has been set up and the priorities you have. Looking at the budget statements, I can see that the National Water Commission is being provided with its initial operational and program funding costs. On the first table it says that there is \$4.783 million in department funding in 2004-05, \$10.3 million in 2005-06 and then there is \$10.251 million and \$10.45 million. There is \$50 million in administered funding for this year, then \$272 million, \$560 million and \$550 million. There is a one-off \$2.1 million capital cost in 2004-05. I know this sounds foolish, but, to me, that does not add up to \$2 billion—it adds up to \$1.432 billion. Is there somewhere else that I can find the other \$568 million?

**Ms Holub**—There is \$130 million in the out year 2009-10 which does not appear in the forward estimates for that period.

**Senator STEPHENS**—Is there something for the out year 2008-09?

**Ms Holub**—What page are you looking at?

**Senator STEPHENS**—I am looking at the additional estimates statement, page 105. Should I be looking somewhere else?

**Ms Holub**—We now have the PBS. I am clarifying that you are looking at the February statements, not the May statements.

**Mr Matthews**—Senator, it is on page 141 of the 2005-06 portfolio budget statement.

**Senator STEPHENS**—Thank you.

**Ms Holub**—There is funding in 2008-09 and, in addition to that, there is a further out year, 2009-10. So, until you have that figure, those numbers that you are talking about will not make sense.

**Senator STEPHENS**—What was that figure again?

**Ms Holub**—It is \$130 million in the out year 2009-10.

**Senator STEPHENS**—Mr Matthews, in the earlier document that I was looking at there is a comment made about revenues from independent sources: 'The commission is not expected to receive any revenue from independent sources during this year.' Is there an expectation that that might occur in the future?

**Mr Matthews**—I will check with our CFO, but at this stage revenue from independent sources would be minor administrative revenue. It certainly would not be on the administered side. Are you on page 108 of the PAES?

**Senator STEPHENS**—Yes. So there would be no requirement for the commission to source funding in that way in the future?

**Mr Matthews**—No, we do not expect that that will be a significant or material source of our funding at all.

**Senator STEPHENS**—Thank you for the answers to the questions that we placed on notice. In relation to those questions, you provided details of the staff appointed to the commission as at 16 March. Is that the full complement of staff now for the commission or is there a staffing structure or an organisational structure that you can provide?

**Mr Matthews**—Yes, we can provide an indicative staffing structure, but in broad terms we are planning for an organisation in the area of, say, 45 staff. We have divided it up into three different groups, each following a particular function, and I can give you a bit more detail of that. At this stage, we are about halfway towards our eventual staffing level. As at this week we have, I think, 22.

**Ms Holub**—Twenty-three.

**Senator STEPHENS**—A moving feast! When do you hope to have the rest recruited?

**Mr Matthews**—We doubt that we will be at our full strength by the end of the year, but we have been moving progressively to recruit staff to each of the branches.

**Senator STEPHENS**—You also provided me with details of the commissioners. Thank you for that. I want to ask you a few questions about the commissioners, if I may. Are any of the other commissioners full time?

**Mr Matthews**—No. All the commissioners are part time, except for the chair—me.

**Senator STEPHENS**—And you indicated that you met on 22 March. Is that the only meeting that the commission has had?

**Mr Matthews**—No. We have had two meetings now. There was another meeting in South Australia in early May and we are about to have a third meeting in Queensland in early June.

**Senator STEPHENS**—How regularly are you planning to meet?

**Mr Matthews**—The act requires that we meet at least eight times per year and we have a schedule that has been agreed among commissioners—meeting about monthly.

**Senator STEPHENS**—Does the commission work with subcommittees? Do some commissioners meet as subcommittees of the whole?

**Mr Matthews**—No, that is not the way that we have arranged things so far, but it is up to commissioners how work will be arranged. There is a finance and audit subcommittee of the commission which is to meet for the first time this Monday. We expect that commissioners will participate in special tasks related to particular functions in the National Water Initiative. Mr Thompson can give an example of at least one of those areas.

**Mr Thompson**—We want to use the commissioners as much as possible because they are an expert commission and their expertise will be used in the near future in scoping out how we intend to take forward the commitments made by state and territory governments and the Commonwealth on national water resource accounting under the National Water Initiative. We will be doing that in a couple of ways: by having some relevant commissioners involved in a small-scale discussion and workshop with other experts about what national resource accounting under the National Water Initiative might look like in practice, and engaging commissioners in a larger workshop which we are co-hosting with the Australian Bureau of Statistics on that issue later in June.

**Senator STEPHENS**—That is very useful, thank you. Can you advise under what decision of the Remuneration Tribunal the commissioners are receiving their fees?

**Mr Matthews**—I would have to take on notice the specific decision, which we do not have with us.

**Senator STEPHENS**—That is fine. If you could take it on notice it would be helpful. Are all the commissioners receiving fees?

**Ms Holub**—In relation to one commissioner who is employed by the Environmental Protection Authority in Western Australia the authority has agreed to his participation in the commission. So in relation to that arrangement, the remuneration fee will be paid to the EPA rather than directly to that commissioner. But otherwise, yes, they will all be receiving fees.

**Senator STEPHENS**—Have you yet had time to consider how the commission proposes to engage with key stakeholders?

**Mr Matthews**—Yes. We have given a fair bit of attention to that because it is our aspiration that we deal very closely with stakeholders, including state governments, who are the water managers in Australia, and with the science community, environmental groups and production groups across Australia.

The Prime Minister visited the commission at its first meeting, and he said at that meeting that he recognised that the only way water reform could be achieved and the National Water Initiative could be implemented was through a collaborative approach. For that reason, we have set out that aspiration of trying to keep in close touch with stakeholders. For example, we have tried to move around Australia regularly, including at commission meetings. We make it our business to try to understand the approach that each state is taking.



In dealing with applications for funding under the Australian Government Water Fund, we try to be familiar directly and personally, from the point of view of staff, with individual projects that are proposed from different areas of Australia. We hope that that will characterise the way we go about our work. We have identified with the staff of the commission two words that we hope will characterise our work. One is 'rigour' and the other is 'collaboration'.

**Senator STEPHENS**—If you are looking on the web, it is a little difficult at the moment to find out about your communication with stakeholders and those interested in applying for funds under the Australian water fund. The smaller grants program is in the Department of the Environment and Heritage. It is a bit difficult to figure out where the commission sits and how to engage with it.

**Mr Matthews**—We are very conscious of that. I will ask Ms Holub to give a bit more detail. We are conscious of the fact that we have only an interim web site at this time. We are only about a week away from having the final web site, which will be much more definitive. We have also been working on a communications strategy, which we will be putting to the commissioners for their comment at the next meeting. That communications strategy is aimed at the things I think your questions are aimed at—that is, making sure that we stay in touch with a whole lot of very interesting people.

**Ms Holub**—We are putting together a stakeholder database. There are of the order of 500 organisations and interested groups. As Mr Matthews indicated, we do have an interim web site at NWC. The work is progressing on the web site proper. That is not the only form of communication. We are also planning to send out to that broader stakeholder advice about the web site. We are in the process of moving to our accommodation over the next two weeks, between now and the middle of June. We plan to send advice out to stakeholders about our address and web site. As Mr Matthews said, we are looking at a communications strategy with the commission as well.

**Senator STEPHENS**—That is great. What is your new location?

**Ms Holub**—It is 95 Northbourne Avenue, in Canberra.

**Senator STEPHENS**—So that is a street front?

**Ms Holub**—Yes.

**Senator STEPHENS**—A shopfront?

**Ms Holub**—It is not exactly a shopfront. It is in a series of buildings on Northbourne Avenue, heading north out of Canberra. It is on the street but it is not actually a shopfront as such.

**Senator STEPHENS**—You have talked about key stakeholders. I am confident that you are paying a lot of attention to that. I want to ask you about cross-subsidising projects through other federal government funding, such as NHT. Have arrangements been put in place for that sort of operation? I am thinking about some of the initiatives where other organisations have an imperative to find funds from other sources and how you might be brought into the web—things, for example, like the National Program for Sustainable Irrigation, which is trying to partner with other people for research and development projects. Is that something that you anticipate the commission will be involved with?

**Ms Hart**—We have tried to make it clear in the program guidelines for Water Smart Australia that there are two important considerations, which I think go to your question. The first is that, in considering an application for funding under Water Smart Australia, we ask applicants to identify any other sources of funding, both through Australian government programs and through state and territory government programs. So we would be made aware as part of the project application whether, for example, there was a National Action Plan on Salinity and Water Quality, National Heritage Trust funds or other program that might also fund water management projects. We will identify that, but we could conceivably receive projects that are seeking funding under Water Smart Australia that could be looking to combine a source of funding from other relevant programs. However, our guidelines and the information that we would expect from applicants are designed to identify that.

**Senator STEPHENS**—Okay. Let us just think about the projects themselves. Could you describe for us the process that you would put in place for assessing projects?

**Ms Hart**—Our guidelines try to set that out, in terms of both the criteria and a flow diagram which I think is helpful in understanding how that process will work. I do not know if you have a copy in front of you, Senator.

**Senator STEPHENS**—I do. Where is the flowchart?

**Ms Hart**—The flowchart is on page 10 of the guidelines. It sets out the process from calling for proposals through to assessment and then final recommendation and project implementation. What that refers to is the application of the criteria that are set out in the guidelines. Broadly, there are two areas of criteria. The first area is the basic eligibility criteria. Those criteria are covered on page 13 of the guidelines. You will see that they are threshold tests, so they require that those things are made out in the application.

It says on page 12 that, to be eligible—and this is not surprising—the project has to advance ‘the objectives, outcomes and activities set out in the National Water Initiative’. We then run through a range of other conditions, including: who would be an eligible applicant; the requirement that the project is in the national interest; the requirement that the applicant or applicants make contributions to the project; and project status—you will see that we are looking for projects that are in an advanced stage of planning. There are also requirements for the following: environmental assessment; that native title considerations have been taken into account; and then, finally, at clauses 58 and 59, that any other relevant government policies, programs and legislation are complied with. So, as I have said, they are basic yes or no threshold questions to determine whether an applicant and a project proposal are eligible for funding under Water Smart Australia.

We then go on to a series of what we have called project assessment criteria. They start on page 14 and continue through to page 16 of the guidelines. They are assessments against a series of nine criteria that are set out there starting from criterion 1 in paragraph 64, which is an assessment of the extent to which the proposal will advance the national water initiative. They then run through a series of other criteria against which the project will be assessed. In essence, that is the assessment framework which is set out in our guidelines.

**Senator STEPHENS**—Thank you for that. That is quite comprehensive, although the discussions that I have had with people out there interested in accessing some funding is that

this is quite difficult to understand. Let us go to the next stage. Do you envisage, Mr Matthews, having funding rounds now that you have the applications and the guidelines out? Are there going to be funding rounds?

**Mr Matthews**—Yes, there will. There will be at least one funding round and probably more in the future. At the time the guidelines were released we advertised nationally. We invited a first round of proposals with applications closing on 30 June. We are happy with the quality of proposals that are being indicated or lodged even now. The reason I said that we are having at least one round is that commissioners will now need to decide whether there should be future general rounds. There is another option, and that other option is to focus on a particular type of project—to make a call for water efficiency or for environmentally oriented projects or infrastructure projects or some other cut of the different sorts of projects that are there. Commissioners have not decided that. There are some advantages to it in that you might get a concentration of like projects so you can make comparisons and choose the best of that lot. But there are some disadvantages as well, including the fact that a project that is not relevant to that particular round would have to wait longer. That is a decision that we will have to make. But at the moment there is a round and it is a general call and proponents are free to apply now before 30 June.

**Senator STEPHENS**—You set out the priorities for funding. Have you set up some kind of an instrument with which you are going to assess projects against each other for the funding? Have you some notional allocations internally of what kinds of funds you are going to set towards different kinds of projects? What is your thinking there?

**Mr Matthews**—We have not at this stage set even notional allocations within our budget for different types of projects, not because that is not a good idea but because we wanted to see the field first; we wanted to get a better sense for whether there was a bigger bang for our buck in a certain type of project. When we are in a sufficiently confident position to make those judgments we might be able to do that. But at this stage it would be too early.

**Senator STEPHENS**—So is your thinking that perhaps, even if you do not actually put it on paper, there should be some kind of a notional allocation nationally across states and territories?

**Mr Matthews**—No, I do not expect that we will have a notional allocation across states and territories because this is a national program and an objective of the government is to have the best projects. Having said that, the government would also I am sure wish there to be an equitable allocation across states and territories but we certainly will not be leading with a notional allocation.

**Senator STEPHENS**—When you do get applications, you encourage people in the guidelines to actually make contact with the commission staff very early in the process. Are you envisaging that someone will kind of project manage an application and be one point of contact for organisations?

**Ms Hart**—That is the intention. My team is divided into jurisdictional contact offices so that they become familiar with the projects that are coming forward from particular states or territories. At the moment we have had over 120 direct inquiries to me and my staff, ranging

from quite well-developed project proposals through to ideas and outlines about projects that might be considered suitable under the fund.

**Senator STEPHENS**—Okay. So have any projects been funded to date?

**Ms Hart**—You might be aware that the Prime Minister announced three projects in Queensland last week. Under the Australian Government Water Fund, the government made a commitment to endeavour to have a series of first-phase, or what we refer to as stage 1, projects that drew on the announced election commitments—the projects announced in the 2004 election—or on examples that were contained in the government's election policy.

The aim with these initial projects was to demonstrate the purpose of the Australian Government Water Fund, to show what sorts of projects would further the objectives of the National Water Initiative and to identify some priority projects from state and territory governments. Projects that will form the first phase have been under development with states and territories, and the three announced in Queensland were part of that initial tranche.

**Senator STEPHENS**—What about the other projects? For example, has the Wimmera Mallee pipeline been approved?

**Ms Hart**—There are a number of projects consistent with election commitments; Wimmera Mallee was one of those election commitments that, as I was saying, are being developed as part of stage 1 projects with each of the state and territory governments except Tasmania and Western Australia, which currently have not signed the National Water Initiative. They are under development.

**Senator STEPHENS**—Are you expecting those projects to be funded in the near future?

**Ms Hart**—We are. The intention is that there will be funding this financial year for some payments against an initial tranche of projects.

**Senator STEPHENS**—Do those projects include the Waterproofing Adelaide proposals that were outlined during the election?

**Ms Hart**—Waterproofing Adelaide was potentially a large suite of projects that were identified. We have been talking to the South Australian government about a number of proposals. They have also indicated that they are intending to bring forward further proposals under the Water Smart Australia program.

**Senator STEPHENS**—What about in New South Wales—the structural adjustment package for the six inland systems?

**Ms Hart**—That is one of the projects that is under development between the commission and the New South Wales government.

**Senator STEPHENS**—Are you anticipating that that one will be funded soon? They have been waiting for quite a long time.

**Mr Matthews**—It is difficult for the officer to answer that question, because the process that we have to go through is to do our assessments and give our advice to the minister, who in this case is the Prime Minister. I think that the furthest officials can properly go in this is to say that there were some projects which were announced in the election, and they are the ones

you are referring to. The government has said that it wants to deliver on those projects and has sought the advice of the National Water Commission.

**Senator STEPHENS**—I appreciate what you are saying and do not want to put you in an awkward position. However, we have all been waiting for a long time for that one to be resolved—more than 12 months. What is going to happen now where the state governments are not signatories to the National Water Initiative? Will it be possible for private enterprises from those states to access the funds?

**Ms Hart**—Yes. In the guidelines, we have set out under ‘Eligibility requirements’ that states need to be a signatory to the NWI to be eligible for funding but that other applicants, whether they are in the private sector, are in local government or are other potential applicants, can apply within Tasmania and Western Australia.

**Senator STEPHENS**—That is good. Mr Matthews, you are anticipating that the \$50 million for 2004-05 will be allocated by the end of the financial year—or is that a calendar year?

**Ms Hart**—I might be best placed to answer that. The funding that you referred to of \$50 million was in the portfolio additional estimates statements. Since then, more recent estimates have been published in the current portfolio budget statements. They indicate that our best estimate of funding for this financial year will be \$6.5 million, and that funding relates to the first tranche of projects that we are currently working on.

**Senator STEPHENS**—Being totally parochial, coming from New South Wales and having spent a week travelling around drought affected New South Wales, is there any capacity for water stressed communities like Goulburn, Yass, Tamworth and Orange to gain any priority for funding for projects that they might be working on?

**Mr Matthews**—I would think that decision makers—decision-making ministers or the Prime Minister—would be well aware of where the stresses are and could apply priority if that seems sensible. You mentioned a number of towns, including Goulburn. I telephoned the Mayor of Goulburn myself late last week to understand their circumstances. We had a constructive discussion about some of the longer term ideas that Goulburn has for trying to deal with its water supply issues. It may be that there will be a proposal coming forward. The commission would expect that whatever comes forward is appropriately cost shared with other levels of government. Provided a project from a town like Goulburn or some of the others that you mentioned had characteristics that satisfied the eligibility criteria and the assessment criteria—which might include, for example, innovation or demonstration advantages to other communities—there would be every chance that they could be considered.

**Senator STEPHENS**—For example, would considering the issue of a pipeline from the community of Yass to the ACT, given the intergovernmental issues around that, be something that could be considered under the water fund? What about that kind of proposition?

**Mr Matthews**—Yes, that could certainly be considered. But—I would not want what I am saying to be misunderstood by anyone—it would need to be considered alongside alternative ways of spending money and it would need to fit with the eligibility criteria and the

assessment criteria. To answer your question in the negative, there is no reason why such a project could not be considered.

**Senator STEPHENS**—I am interested in understanding the process by which the commission's staff will assess things like innovation or demonstration projects. I do not know if a pipeline to the ACT is the best solution for Yass, but at what level is there going to be an assessment that these project proposals demonstrate the best solution? Is that an assessment that will be done by the staff?

**Mr Matthews**—The staff of the commission will always lead in the assessment. As Mr Thompson has said, we hope to be able to use the expertise of commissioners, who are selected for their expertise and their skills as well. There will be some projects where we would expect that we might need to seek external expert and technical advice and we would buy in contract services or consultant studies. Sometimes it might be necessary for us to buy in expertise to help us with the nice judgments that need to be made that you are talking about. We are also fortunate to have good cooperation from a whole range of agencies at Commonwealth government level, and many of those agencies have already offered their services to help us make assessments about the quality of the technologies, management techniques and other attributes that some of these projects bring. It is early days, but we think we can mobilise a wide range of both in-house and external, bought-in assessment services so that we get good advice to the government.

**Senator STEPHENS**—You have partially answered one of my questions, because the guidelines ask for quite a lot. If you are looking at technological innovation there need to be some studies and things provided as part of the application. So there is the capacity for the commission to engage consultants to assess technology or to test some of the claims of some of the technology.

**Mr Matthews**—We think that will be absolutely necessary. The act that established the National Water Commission explicitly provides for consultants and contractors, and the reason it does that is that the commission is a very small organisation and it is just not feasible for us to keep in-house technical experts on plumbing and all the other aspects of water that we are already encountering.

**Senator STEPHENS**—Absolutely. Let us move on to the issue that emerged last week about tying funding to industrial relations reform. Where did that notion come from? Did the idea to tie the federal government's industrial relations agenda and the construction code come from the Water Commission?

**Ms Hart**—It is a matter of government policy, and the national construction code and guidelines are not unique in their application to our water programs or projects. They apply to all infrastructure funding programs. My understanding is that the Prime Minister wrote to state premiers and territory first ministers on 14 September 2003 advising them that from January 2004 the national code of practice for the construction industry and the guidelines would apply to infrastructure funding projects which were either directly or indirectly funded by the Australian government above minimum threshold values. So it certainly is not in any way unique to the program funding under the Australian government water fund.

**Senator STEPHENS**—What is the minimum threshold value?

**Ms Hart**—The minimum threshold value for indirectly funded projects—which largely encompass the projects that we are looking at, where there are co-contributions from states and other parties—is, through grants or other programs that fund projects, where the value of the Australian government’s contribution is at least \$5 million and represents at least 50 per cent of the total construction project value or where the value of the Australian government’s contribution is \$10 million or more, irrespective of the proportion of Australian government funding.

**Senator MURRAY**—That relates to projects which are infrastructure. You have other projects which are not infrastructure, so they would not apply there. Is that right?

**Ms Hart**—That is right. We have a range of projects, only some of which will involve infrastructure in construction, and only some of which the code and guidelines will apply to.

**Senator STEPHENS**—You advised us that the Prime Minister wrote to all the state premiers and territory chief ministers on 14 September 2003 to say that the guidelines would take effect from January 2004.

**Ms Hart**—That is correct.

**Senator STEPHENS**—Did you write to all state premiers and chief ministers about the Australian Government Water Fund guidelines?

**Mr Matthews**—No. I wrote to senior officials in the states and territories that might be benefiting from a grant in the reasonably near future. I did that for all the best reasons of accountability. I wanted to take the collegiate approach with my state and territory colleagues that I mentioned before. I wanted them to be aware of the state of their proposals and the details of the funding agreement that was being offered to them and to have that done in a timely way. The paper that you are referring to, which was an attachment to my letter, was a draft funding agreement with all the very best accountability arrangements which I am sure you would expect in a well-run program where there is granting between the Commonwealth and another level of government. As Ms Hart has said, for the record, those are standard or near standard conditions. They were prepared for us by the Australian Government Solicitor. We contracted them to prepare a normal funding agreement. I was offering that to my colleagues in the states on the understanding that there would not be public comment about it. It was not applying only to water projects, as Ms Hart has said. It is a standing Australian government policy and it was not a late addition, as reported in some press. I am emphasising that it was a routine, standard provision of good program management.

**Senator STEPHENS**—My question was: did you write to all the state and territory premiers and chief ministers, and you said no, you did not. Are you able to tell us which states and territories you did write to.

**Mr Matthews**—The letters were confidential letters between me and some state and territory senior officials. I do not think I can readily tell—

**Senator STEPHENS**—Are you able to provide the committee with the draft agreement that you included as an attachment?

**Mr Matthews**—Yes. I think that would be an accessible document, although I would emphasise, as I stated, that it was provided to the states for their comment and it certainly was

not a *fait accompli*. The letter and certainly our conversations with the states made it plain that we were trying to offer them an omnibus agreement and that the agreement would need to be tailored to the particular circumstances of projects. For example, Senator Murray asked whether the construction code clause would apply to non-construction projects. It would not. For that reason that clause would be taken out of the final agreement.

**Senator MURRAY**—Just for clarification, you indicate that you are reluctant to reveal whom you wrote to. To get an idea of whether all the states and territories are acquainted with these conditions, there are six states and two territories. I gather that only one is not a signatory—Western Australia.

**Mr Matthews**—Two—Tasmania and Western Australia.

**Senator MURRAY**—So of the six that are signatories, was one left out, were two left out or were all six written to?

**Mr Matthews**—There is only one signatory state that we did not write to.

**Senator MURRAY**—The important question—which I am sure is where Senator Stephens would have gone—is whether that state or territory is aware of the draft contract or the draft conditions and is as acquainted with those requirements as the others who are signatories.

**Mr Matthews**—Unless there has been a breach of confidence, that state would not be familiar with the details, but nor do they need to be at this time. I would continue with my policy of trying to make sure that state and territories are dealt with decently, and they will be told about those conditions as soon as it becomes relevant for them.

**Senator STEPHENS**—That was my next question. Mr Matthews, you say that the correspondence provided the draft agreement for comment. Was there a time frame in which people were asked to respond to you?

**Ms Hart**—No. We enclosed the draft and we asked them to consider it and respond. We did not put a time frame on the response.

**Senator STEPHENS**—Do you think that the fact that you did not put a time frame on the response would delay projects being funded?

**Ms Hart**—I do not believe so. I think the states are as keen as we are to conclude the arrangements around the funding agreement and to have those discussions.

**Senator MURRAY**—Would you confirm for the record that the industrial relations component of the Commonwealth code is the same as is applying to the Department of Transport and Regional Services, the department of telecommunications or anybody else who is contracting with other agencies? It is not altered for the Water Commission's purposes, is it?

**Mr Matthews**—That is correct.

**Senator MURRAY**—I doubt you are an expert but, as far as you are aware, is it correct that it merely confirms that the federal Workplace Relations Act applies to the circumstances under which that contract operates—in other words, that, if there is a conflict between the state jurisdiction and state law and the federal law, it is the federal law that applies?



**Mr Matthews**—There are two points. The first one is that the construction code says what the construction code says, and I think it would be wrong for me to try to summarise it or to distil the essence from it. The second point is that the content of the construction code is another portfolio's business. We have been required, as is the standard practice, to include it in our draft funding agreement, which we have done, just as other portfolios do. I think if you have questions about the content of it or even the spirit of it, they are really questions for the Department of Employment and Workplace Relations.

**Senator MURRAY**—It has been explored elsewhere in other committees, and that code is consistent with the Workplace Relations Act. As far as I am aware, there is nothing additional to that act, apart from tender conditions.

**Mr Matthews**—That may well be so, but I do not think that I am the right person to seek a confirmation of that from.

**Senator MURRAY**—What I was really searching for was to be sure that the Water Commission has not added anything to that which was given to you.

**Mr Matthews**—That is correct. You have that assurance.

**Senator STEPHENS**—I would now like to move on to the language of the National Water Commission and the supporting documents and statements by ministers—that is, that the National Water Commission, which was established as a COAG initiative out of the National Water Initiative, promotes a whole of government approach. Can you tell me what processes have been put in place to ensure that the National Water Commission engages with other sectors, agencies and other initiatives relating to natural resource management?

**Mr Matthews**—Within the Australian government?

**Senator STEPHENS**—Yes.

**Mr Matthews**—There are a variety of mechanisms that we have in place. You would be aware that water policy coordination has been designated a responsibility of the Prime Minister's portfolio, so the Department of the Prime Minister and Cabinet provides broad coordination across the various agencies involved in water through the Australia government. It does that in a number of ways. One way is that there is an interdepartmental group that meets regularly to talk about water issues. The various portfolios that are involved in water participate in that, and the National Water Commission is present for those meetings. There are other mechanisms as well. You would be aware that the environment portfolio and the Agriculture, Fisheries and Forestry portfolio work very closely together on natural resource management programs, including water programs. We have good relationships with those portfolios and those departments, and we participate in a range of formal and informal consultative and staying-in-contact groups—staying-in-touch groups. There is that sort of machinery as well. We are gradually putting in place processes for the National Water Commission staff to stay in touch with their counterparts in other departments—and, for business processes within the National Water Commission, to touch, when relevant, the other portfolios as well. Malcolm, do you have anything to add?

**Mr Thompson**—There are probably a couple of other mechanisms that we have put in place apart from the formal and informal ones that Mr Matthews just referred to. Early on in

our life we engaged a science adviser on a part-time basis, and we used Michele Barson from the Bureau of Rural Sciences for that purpose. That was a mechanism not only for us to get some science advice in house but also to create some of the links with those agencies. And, sticking with some of the scientific agencies in the Australian government family for a little while, we have had regular informal contact with the range of those agencies which have an interest in water, including CSIRO, Land and Water Australia, the Bureau of Meteorology, and Geoscience Australia. Going outside the Australian government sphere, we are formally involved in the Natural Resource Management Ministerial Council working group on the National Water Initiative, which has been established to help that council fulfil its responsibilities under the National Water Initiative to help oversight the National Water Initiative agreement and the actions contained in it and to help resolve issues as they arise.

**Senator STEPHENS**—I was interested to find out whether or not you had any formal connection with the Productivity Commission or the ATO.

**Mr Matthews**—We have no formal connections with either of them, but we have been in touch with the Productivity Commission. I do not think we have been in touch with ATO, have we?

**Mr Thompson**—The ATO have a consultative group which they convene on agricultural and primary industry taxation matters. We receive updates of those meetings and the issues discussed there.

**Senator STEPHENS**—The ATO made a ruling about water infrastructure recently, didn't they? I wondered whether or not you had engaged with them on that particular issue. That is within the Australian government. What about intergovernmental networking and relationships between state and territory governments. Is that formal or informal?

**Mr Matthews**—It is both. I have been emphasising the collaborative approach that we are trying to adopt as part of our working ethos. I have now made at least one visit to every state and territory to talk to counterparts—probably now it would be two visits to all states and territories. We have direct relationships with the senior people who are water managers in each state and territory administration. We deal, as you would obviously know, in two broad areas: one is about projects and one is about water reform and what is in the National Water Initiative.

Project liaison with the states and territories happens automatically, in a sense, because a project comes forward and we talk to the proponents or the people who are responsible for those proponents. That is in Ms Hart's group. Dealing with the states on the water reform issues, the National Water Initiative issues, is something where Mr Thompson, who runs that group, is in touch on a regular basis. We also intend to convene—and we have already convened—occasional meetings of interested jurisdictions to deal with particular multilateral issues which need to be dealt with.

An example is that the commission recently put out some guidance about what a state or territory implementation plan should look like. Implementation plans are about how each state will go about delivering its commitments under the National Water Initiative—a very important strategic document for each state. We convened a meeting with the states and territories to discuss the draft of that guidance so that they had every opportunity to influence

what it looked like, and we intend to do similar sorts of things for sticky issues in the National Water Initiative, issues that are challenging for jurisdictions or—the example that Mr Thompson gave earlier—an issue such as water accounting, which is a big challenge. We think there is a role for the National Water Commission to provide a sort of facilitating service to make sure that what needs to be done is done and is initiated at the right time. So our aim is to be active, constructive and collaborative and not just to wait with arms folded for things to happen and then criticise.

**Senator STEPHENS**—That is good; I am pleased to hear it. What about the Australian Local Government Association?

**Mr Matthews**—There have been two meetings with the Australian Local Government Association, and we certainly encounter each other at various functions—conferences and the like. The local government sector is probably most interested in the granting program. We have certainly been in touch with a lot of individual representatives of local government, as distinct from ALGA, but ALGA came to see us very early and we have stayed in touch with ALGA. They are interested in getting information out to their members about the National Water Initiative and the Australian government water fund.

**Senator STEPHENS**—I know the Australian Community Water Grants program is administered by the Department of the Environment and Heritage and AFFA. Do you have a relationship in terms of that program? I suppose I am concerned about the need for some kind of strategic relationship around some of the projects that might be funded or seeking funding under that program and about whether or not they actually relate to your objectives.

**Ms Hart**—I will answer that one. We certainly do have a close working relationship with the program administrators for that fund, and we have been convening and will continue to convene a contact group where the officers from DEH and DAFF are represented and would be providing information about funding under that program. We also invited staff of the NWC to the steering group that operates to look after the communities program as well. I guess I am saying that we have cross-representation to ensure that everything funded under the Australian government water fund, whether it is in that community program or in the larger programs that we run, is considered in a strategic and coordinated fashion.

**Senator STEPHENS**—One of the issues that has been raised with me is that organisations might seek funding under that program for consultants to do work to then put a project forward under the Australian Water Fund. Their concern was that what might happen is that expectations would be raised that, having engaged their consultant to do their plan to be more efficient, they would then be able to get money for infrastructure under the other fund, and that it seemed to be not a natural conclusion but something that would strengthen their case. Has that been an issue that has been raised with you?

**Ms Hart**—It has not been raised with me directly. Certainly in the application template we have asked proponents to identify both the funding they would currently be receiving and the funding they have received for relevant projects in the past. So we will be attempting to take that into account. But, if a project comes forward that is competitive and meets our requirements under the Water Smart Australia program, then it would be considered on its merits.

**Senator STEPHENS**—Mr Matthews, you said you had met with the ALGA, so you are familiar with Mr Paul Bell's concerns about the fact that, as he says, medium sized projects might find it hard to attract money from the fund. That was his comment. He suggested that the commission should establish some kind of a Roads to Recovery style program for non-road council infrastructure. That is a very local government perspective on life, but that is okay. What do you think of that idea?

**Mr Matthews**—That is really a policy decision that would have to be made. The best I could do tonight would be to provide a bit of reassurance. I think Councillor Bell saw a gap between the \$50,000 program administered by the Environment and Heritage portfolio and the million-dollar minimum which is associated with the Water Smart Australia program. The reassurance is that the million-dollar minimum is a pretty flexible minimum. In fact, it is not really a minimum at all. It is really there just to indicate that the program is principally designed for larger projects, but it is not an absolute threshold and therefore I do not think it would exclude too many.

The second piece of reassurance is that it is quite possible—and in fact it is encouraged—to have local government areas collaborate on, and perhaps amalgamate, their projects and bulk them up, and that would be a positive outcome both for the local government areas and for program management. The third thing I would say is a reminder: what the Water Smart Australia program is about is, in particular, looking for projects which have some innovation, projects which have a bit of cutting edge to them, and projects which can demonstrate to other communities how to do things well. So it really was not originally conceived as just another way of funding just another water or sewerage system around Australia. It certainly will be funding infrastructure in water and sewerage, but the government is trying to find examples of projects that are different, that are innovative and that push the boundaries.

**Senator STEPHENS**—Let us go to the issue of water and forestry. I understand that you attended the National Water Initiative roundtable organised by Tree Plantations Australia and NAFI.

**Mr Matthews**—Yes.

**Senator STEPHENS**—Has the National Water Commission developed a position on the plantation forests?

**Mr Matthews**—I will ask Mr Thompson to handle that, but let me say this first: the National Water Commission has not yet developed a position. We are aware of the concerns of the plantation sector, but what we are guided by is what is in the National Water Initiative, and I will ask Mr Thompson to run through that.

**Mr Thompson**—I do not have a lot to add to what Mr Matthews said. The National Water Initiative, as you probably know, includes provisions relating to what we call water interception. These are activities that include land use changes or other activities which have the potential to reduce the overland flow of water and therefore reduce the physical recharge of either ground water or surface water systems. A few examples of those sorts of activities are given in the NWI. Large-scale plantation forestry was one of them. The NWI came out, though, and gave examples of the sorts of activities that may, potentially, be a concern and which require the parties to put in place measures in relation to water interception that would,

in particular, address significant interception activities in those water systems which were either fully allocated or already overallocated or approaching full allocation. Also, they said that, in other systems—those outside of those three categories—as a risk management strategy, significant interception activity should be identified and estimates made of that.

The rationale for including those sorts of provisions in the NWI was about better management of the water resource and, in particular, ensuring that major land use changes or other activities that did intercept the overland flows of a ground water recharge did not lead to a reduction in the security of existing water entitlements. I suppose those issues around security of water entitlements both for the environment and for productive uses go to the heart of the NWI.

But, as Mr Matthews says, we are aware of some of the concerns in the forest industry, in particular, around those provisions. We are conscious, too, that there is some definition that needs to be given to how those provisions are put into place in practice in the states and territories. One of the things that we will be looking at when the states and territories and the Commonwealth provide us with their implementation plans under the NWI is what they intend to do in relation to putting these measures into practice and whether some sort of national approach or a more consistent approach across jurisdictions is then required. The NWI does not call for that. It gives guidance on a broad national approach about whether we need to go to another level of detail.

**Senator STEPHENS**—When are the implementation plans due?

**Mr Thompson**—The implementation plans are due with us by the end of this month and we will be seeking to assess and accredit them, as we are required to do under the NWI, by the middle of this year.

**Senator STEPHENS**—One of the things that Mr Truss floated at that roundtable was the idea of salinity credits. Is that something that you have given much thought to?

**Mr Thompson**—It is not something that we have given much thought to. There are probably other priorities for us in the NWI—the National Water Initiative—and how to assist in implementing that. But I would note that the National Water Initiative itself requires, in the provisions relating to water trading, a study to assess the feasibility of establishing market mechanisms, such as tradeable salinity and pollution credits. We will be looking at how jurisdictions, including the Commonwealth, will implement that.

**Senator STEPHENS**—I have lots and lots of questions, but I will just go to the questions that I need to get a bit of a sense of. Mr Matthews, were you there at the Wealth from Water Conference in Wagga in 2003?

**Mr Matthews**—No.

**Senator STEPHENS**—At that conference, Dr John Williams gave a paper and made some important points, including the fact that we eat a lot of water. But he made the point that we need large storage capacity to deal with variability and the fact that that also has an impact on river flows and flow regimes. My basic question is: do you think that we have adequate water storage in Australia? It is a trick question, right on the knocker! And the next question is: do you think we need to build new storage capacity to deal with Australia's future water needs?

**Mr Matthews**—It is a difficult question, but there is in fact only one answer, and that is that the adequacy of storage varies across Australia. There are some areas in Australia which are well-supplied with storage and some areas which are not. So it would be meaningless to say, ‘Australia as a whole has or does not have adequate storage.’ What was your second question?

**Senator STEPHENS**—It was about what you think of building new storage. The Welcome Reef Dam proposal keeps coming up, even though it is not something that is on either government’s agenda. Do you think it has any role to play in resolving water shortages on the east coast?

**Mr Matthews**—I would not comment on that particular proposal, but the National Water Commission is often asked about what its attitude to dams is. The National Water Commission will be guided by the National Water Initiative, because that is the blueprint for water reform which has been agreed by all governments. There is nothing in the National Water Initiative that says that there cannot be further dams in Australia. It certainly lays down some criteria and some processes, but there is not a moratorium on dam building.

**Senator STEPHENS**—What is the involvement of the National Water Commission in research? Our previous discussion was about research, consultation and modelling around water trading and water rights issues. Is the National Water Commission involved in research projects around the issue of climate change? Is it participating in any shape or form?

**Mr Thompson**—There are a couple of prongs to that answer. At this stage, there is no involvement—through investment or otherwise—by the National Water Commission in climate change research, although we are very conscious of the climate change sphere and have had many conversations with some of the scientific bodies that are relevant to this area. I alluded to some of those before. But the two prongs to the answer are around the provision in the National Water Initiative which requires the parties to identify the key knowledge and capacity-building priorities which are needed to support the ongoing implementation of this agreement. Clearly, climate change, seasonal variations and the variability of water resources would be one of those areas. To that end, the commission has already taken the initiative to discuss how it might contribute to developing a knowledge strategy for water and in particular how to help implement the National Water Initiative. This is an area that is on the public record as being of particular interest to Professor Peter Cullen, who is one of the commissioners, and we will be doing some further work in that area.

The other prong to the answer involves the Raising National Water Standards program. The government clearly identified that one of the priorities for that program, which is really about improving the tools for management, use and knowledge of water resources, is better understanding of our water resources—in particular, our groundwater resources—and water accounting. Climate change would come into that as well as one of the priorities for funding.

**Senator STEPHENS**—I have many other questions, but I will place them on notice. Mr Matthews, I foreshadow that Senator Heffernan is very interested in some of the Water Commission staff and some of the commissioners perhaps meeting with the Rural and Regional Affairs and Transport Legislation Committee for a private briefing and discussion

about the issues that you are confronting. Thank you very much for your assistance this evening.

**CHAIR**—Thank you for gracing us with your presence tonight, Senator Stephens. It was as delightful as always. Mr Matthews and officers, thank you very much and good evening.

**Committee adjourned at 11.05 pm**